



Ca' Foscari  
University  
of Venice

Master's Degree  
in Language and Management to China

## **Final Thesis**

### **Luxury bags: how to win in the Chinese market**

Analysis and comparison of e-commerce strategies used by international brands in  
China

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**Academic Year**

2021/2022

*Ai miei angeli in cielo, Enzo e Laura*

*Al mio angelo sulla terra, Davide*

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## ***Introduction***

当下我们生活在一个数字时代，任何一个公司都应该与时俱进，通过不断革新积极融入这个时代从而在国际市场上取得成功。这个论据是这篇论文的立足点，从论文的标题我们可以看出，这篇论文的研究主题是中国时尚工业市场上主要的奢侈品牌所采用的战略。这篇的论文的视角比较独特，因为它的主要研究对象是时尚工业链的包。这篇论文旨在理解国际品牌为了在中国市场立足所采用的战略纲要。

论文的第一章主要是关于中国电商的发展。事实上，中国引领着全球互联网产业，这一成果离不开中国政府从上世纪七十年代开始对中国电子产业的从大力支持。同时，中国政府从来都没有停止对中国互联网的控制，比如说防火墙的使用阻断了外网的消息。但更有趣的是，中国的数字市场、技术平台和在线形式都和西方市场有着巨大的差异。中国电子商务使用多媒体、多渠道来接触和吸引消费者，如今这种形式也变得越来越成熟。更重要的是，他们站在使用数据、分析、洞察消费者的前沿，这帮助他们更好地了解客户，并开发真正的消费者驱动型产品。中国电商的发展主要为四个阶段：第一个阶段为初始阶段（从一八八七到一九九九年），第二个阶段是发展阶段（从二零零零年到二零零七年），第三个阶段是标准化阶段（二零零八年到二零一四年）在这个阶段诞生了政治控制系统，第四个阶段就是从二零一四年到现在，这个阶段代表着中国电商产业链的成熟以及全球化。很明显，国际公司必须了解哪些是最传统的平台，尤其是最现代的平台，以便充分利用以吸引所有不同的消费者群体。这就是为什么第一章将介绍中国的主要电子商务平台，这一步是为了强调传统电子商务平台与最新社交电子商务平台之间的差异。传统的平台主要用于购买产品，比如阿里巴巴旗下的天猫、京东、唯品会、苏宁易购、Farfetch 和寺库。最新的电子商务平台则被消费者用来表达个人对产品的看法，其中以小红书、微信和微博最为突出。比如说，微信允许消费者买个种产品。然而，这篇论文的主要目的是要清楚地了解中国市场的趋势，而不是单纯的引出中国电子商务的概念。中国是世界上最重要的经济体之一，投资这个市场对于国际时尚品牌来说是一个不容错过的机会。官方数据也印证了这一点：根据麦肯锡报告（二零一九）的数据，从二零一二年开始，中国奢侈品市场在二零二零年增长到全球市场的百分之三十五。预测称中国奢侈品市场将占全球市场的百分之六十五。二零二五 年底前的市场份额。此外，二零二零 年中国消费者在奢侈品（包括成衣、配饰、手表和珠宝以及美容产品）上的花费超过 7700 亿元人民币，预计到二零二零 年这一数字将达到 一旦二 万亿元人民币。这意味着，考虑到二零二一年全球奢侈品消费最终达到 3206 亿美元（2830 亿欧元），中国奢侈

品市场占比超过百分之四十四。一旦分析了中国市场，就有必要关注其主要参与者，也就是消费者。事实上，中国市场主要根据年龄分为三组消费者：最年长的一代（六十五年后和七十年后）——占奢侈品消费总额的百分之二十二，Y一代或“千禧一代”（后八十年代）——占奢侈品总支出的百分之五十六，最后是Z世代，占市场的百分之二十三，他们构成了公司应该赢得的消费者，以确保未来的销售。不同的世代需要不同的关注，因为需求不同。因此，我们将分析这三组消费者之间的主要差异，包括购买原因、推动购买产品的最相关因素、品牌知名度及其重要性。然后我们继续分析主要销售渠道，以了解哪些最受不同类别消费者的青睐，并区分基于商店（即概念店、精品店、百货商店、奥特莱斯和机场店）和非实体店渠道（即官网和电商平台）。至于销售渠道，同样重要的是要了解为什么消费者更喜欢去实体店而不是网上购买。鉴于二零一九年十二月开始的大流行形势对中国市场和国际市场产生了强烈影响，迫使企业做出快速而出人意料的变化，也因此发表了这篇演讲。新冠病毒最显着的影响当然是推动了数字化，这是在强制封锁的情况下确保销售的一种基本替代手段。这就是我们在上一章中选择作为案例研究的领域的方式，即奢侈品手袋领域。同样在这种情况下，数据不言自明：根据麦肯锡二零二一年分析报告的数据，奢侈品手袋的市场价值在二零二一年增长并达到八十亿美元。具体而言，该行业的增长率预计将保持稳定每年大约百分之七。这意味着市场尚未处于成熟阶段，因此它正在不断扩大和增长。而在这样一个不断增长的市场中，你必须使用一切可能的手段来取得成功，比如与名人或KOL合作。包先生（陶亮的艺名）是品牌依靠KOL来销售他们的包包的一个例子。有许多案例证明了这位影响者的巨大成功，例如2017年他与法国品牌纪梵希的合作，导致该系列的所有限量版仅在十二分钟内售罄。最后，通过这篇论文，我尝试对一些国际品牌用于奢侈品包袋促销和销售的数字化策略进行比较分析，这些品牌包括著名的香奈儿、路易威登、爱马仕、巴宝莉、纪梵希、迪奥和古驰。这个分析的目标在于让我们了解这些品牌是如何决定进入中国数字世界的：那些流程缓慢的品牌，那些发展得很快的品牌，以及那些尚未认识到中国电子商务的巨大重要性的品牌。总之，从电子商务在中国的诞生的那一刻，电子商务已成为任何国际品牌成功打下了基础。

In such a digital age as the one we live in, any company had to and must continually adapt to the changes that are happening, constantly looking for innovative solutions to survive and succeed in the international market. On this basic assumption, the whole elaborate is based. As can be seen from the title, the main object of study will be the strategies used by the most important luxury brands in the fashion industry in the Chinese market. In order to be able to carry out an analysis as peculiar as possible, I decided to concentrate on a particular product of the sector, which are bags. The ultimate objective of this thesis is to understand which are the fundamental elements that cannot be missing in the strategies implemented by the various international brands to first conquer the Chinese market and then to win the fierce competition.

Within the first chapter, the focus is on the development of the e-commerce in China. To date, in fact, we can say that China is leading the global internet penetration. This goal has been achieved thanks to the central role of the Chinese government, which has supported the rapid spread of the Internet within the country, starting from the 1970s. At the same time, the government itself has never renounced to the rigid control of the entire infrastructure, using tools such as a robust censorship system in order to keep the control over it. The most interesting thing about the development of the Chinese e-commerce is that platforms in China are really different from the Western ones. The Chinese e-commerce has developed progressively and there are four main stages of development, which are the initial phase (from 1997 to 1999), the development phase itself (between 2000 and 2007), the standardisation phase with the development of a system of policies for the control (between 2008 and 2014) and the current phase, which can be defined as a mature and now globalised phase. It is clear that it becomes fundamental for international companies to understand which are the most traditional platforms, but especially the most modern ones to be exploited to the fullest to conquer all the different consumer groups. That's why, continuing the discussion of the first chapter, the main e-commerce platforms used in China will be presented, highlighting the substantial difference between traditional and conventional ones and the latest social e-commerce platforms.

Among the first, mainly used by consumers to get information about the price and to conclude the purchase, we find Alibaba with Tmall Luxury Pavilion, JD.COM, VIP International, Suning.com, Farfetch and Secoo.

Among the latter, used by consumers to express personal opinions about products, stand out Little Red Book, WeChat, and Weibo. Obviously, however, it is important to have a clear idea of what are the trends of the Chinese market, going beyond the concept of e-commerce, and it is for this reason that in the second chapter a general overview of the luxury goods market is realized, focusing on the fashion industry. As China is one, indeed the most important economy in the world, investing in this market is an opportunity not to be missed. Official data also confirm the above: according to data

presented in McKinsey Report (2019), starting from 2012, China's luxury market has grown up to the 35% of the global market in 2020. Predictions say that Chinese luxury market will account for the 65% of the market before the end of 2025. Moreover, Chinese consumers spend over 770 billion RMB in 2020 for luxury goods (including ready to wear, accessories, watches and jewels, and beauty) and this amount is thought to reach 1.2 trillion RMB by 2025. This means that, considering the fact that the global spending on luxury goods in 2021 ended up at \$320.6 billion (283 billion euros), the Chinese luxury market accounted for more than the 44%. Once the market has been analysed, it is necessary to focus on its main players, i.e., the consumers. The Chinese market is in fact divided into 3 groups of consumers, based mainly on age: the oldest generation (post '60s and '70s)- which represents the 22% of the total luxury spending, the Generation Y or "Millennials" (post '80s) – which represents the 56% of the total luxury spending, and finally the Generation Z, that represent the 23% of the market and they constitute those consumers that companies should win over aiming to secure future sales. Different generations require different attention, as needs vary. That's why, we will analyse the main differences between the 3 groups of consumers, about the reasons for buying, the most relevant factors that push to buy a product, brand awareness and the importance of the same. We then move on to the analysis of the main sales channels, to understand which most are appreciated by the different categories of consumers, with a distinction between the store-based (i.e., concept stores, boutiques, department stores, outlets, and airport stores) and non-store-based channels (i.e., the official website and e-commerce platforms). As for sales channels, it is also important to understand why consumers prefer to go to the physical store rather than to buy online. This speech is also addressed in the light of the pandemic situation that began in December 2019 that strongly influenced the Chinese market, as well as the international one, forcing companies to make rapid and unexpected changes. The most significant impact of the Covid-19 was certainly the drive to digitalization, a fundamental alternative means to secure sales despite the forced lockdown. This is how, in the last chapter, we move on to the sector chosen as a case study, that of luxury handbags. Also in this case, the data speak for themselves: according to data reported in McKinsey's analysis of 2021, the market value of luxury handbags increased and reached 8 billion USD in 2021. In detail, the growth rate of the sector is expected to remain stable at around 7% per year. This means that the market is not yet in its maturity phase and that therefore it is constantly expanding and growing. And in such a growing market, companies have to use all possible means to succeed, such as collaborations with celebrities or KOLs. Mr. Bags - Tao Liang's stage name - is an example of KOLs that brands should rely on to sell their bags. There are many cases that demonstrate the immense success of this

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<sup>1</sup> McKinsey Greater China's Apparel - Fashion and Luxury Group, *China Luxury Report*, 2021

influencer, such as the collaboration with the French brand Givenchy in 2017 that led to the sale of all the limited-edition pieces of the collection in just 12 minutes. Finally, the attempt to make a comparative analysis between the digital strategies of some international brands used for the promotion and sale of luxury bags is conducted. Brands that will be analysed include Chanel, Louis Vuitton, Hermès, Burberry, Givenchy, Dior, and Gucci. The analysis will allow us to understand how these brands have decided to approach the Chinese digital world: those with a slow process, those with a much faster and more decisive path and those who do not yet recognize the extreme importance of Chinese e-commerce. In conclusion, starting from how e-commerce has entered and developed in China, we come to the end with the awareness that it has become fundamental and essential for the success of any international brand.

## *The development of the e-commerce in China*

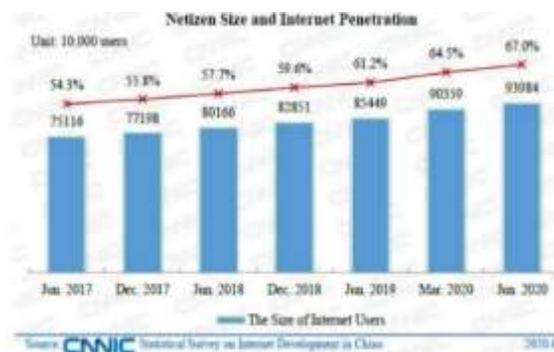
### *1.1 An introduction to the e-commerce*

When we use the term e-commerce, we refer to a business model that allows people to buy or sell goods, but also services, on the Internet. Consumers can use different devices, such as phones, computers, or tablets to carry on the entire transaction, which means choosing, buying, and paying for a product or a service. The first transaction on an e-commerce platform took place in 1994 with the sale of a CD between two friends on the American online website, Netmarket. Nowadays, we can affirm that China is leading the global internet penetration. In order to understand the reasons why China has such a high internet penetration rate, we need to discuss the elements that have boosted the development of the internet in the country. The primary elements that have speeded up the use of internet and stemmed from the government's concerns about the internet development include:

- Creating the necessary conditions for a rapid and widespread diffusion throughout the country, in order to support the liberalisation and economic growth process that began in the 1970s.
- Avoiding that, with the development of the internet, the Chinese government could weaken forms of control and selection of the information. For this reason, China has created a centralised infrastructure, controlled by the government itself, with an intransigent and solid censorship system.

According to the 46<sup>th</sup> CNNIC<sup>2</sup> report, in June 2020, China had a total of 939.84 million active internet users, with a net increase of 36.25 million over the previous six months and with an internet penetration rate of around 67%.

*Figure 1.1: Internet penetration in China*

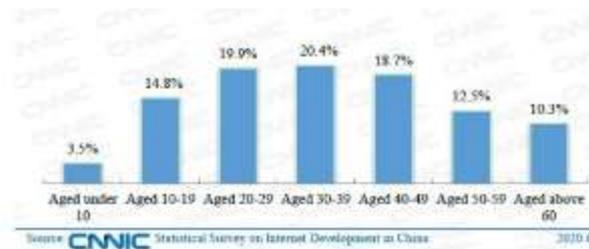


*Source: CNNIC Statistical Survey on Internet Development in China, June 2020*

<sup>2</sup> China Internet Network Information Center, which monitors the quantitative and qualitative development of the Internet on a national scale and regularly provides specific research on the Internet development in China

The major reasons for the success of the internet in China include the great attention of the state to the infrastructures' development, the nonstop improvement of the technological environment and the radicalisation of the internet in the traditional Chinese industry, with the growth of e-commerce. Considering the age groups, as shown in figure 2<sup>3</sup>, the group that access Internet the most is the 30-39 age group, followed by the 20-29 age group (due to study reasons). In order to keep contacts with the younger generation or just for “the exploration” of this new world, the 50-59 age group is further and further growing. The number of users from the 10-19 age group is also raising, due to the development of dedicated App, such as Tik Tok.

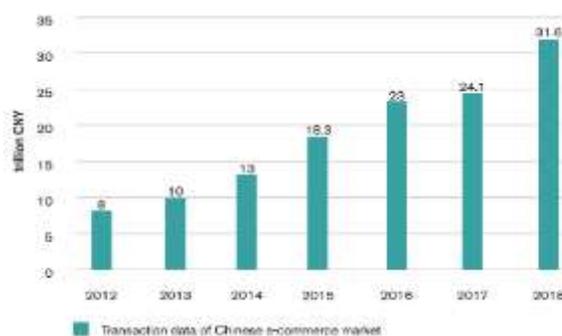
Figure 1.2: Age structure of Chinese Netizens



Source: CNNIC Statistical Survey on Internet Development in China, June 2020

Considering the fast development of the Internet and the mobile infrastructure, e-commerce has rapidly and briskly grown in China. Data show that China’s e-commerce transactions increased from 8 trillion CNY in 2012 to 31.63 trillion CNY in 2018, as shown in figure 3<sup>4</sup>.

Figure 1.3: China's e-commerce transactions development



Source: Research report on market prospects and investment opportunities of China’s e-commerce industry in 2019–2024, China Business Industry Research Institute, 2019

<sup>3</sup> Source: CNNIC Statistical Survey on Internet Development in China, June 2020

<sup>4</sup> Research report on market prospects and investment opportunities of China’s e-commerce industry in 2019–2024, China Business Industry Research Institute, 2019, available at: <https://www.askci.com/news/chanye/20190722/1129101150117.shtml>

## *1.2 China's e-commerce development: past and current situation*

The Chinese Government played, and it still plays, a crucial part in supporting the development process of e-commerce, in terms of shaping the surroundings needed in order to prosper and flourish. Generally speaking, we can divide the Chinese e-commerce development into four phases.

### I. The starting phase – also called the Germination stage - from 1997 to 1999

The first phase started after the introduction of the Internet in China, which occurred in 1989. In this stage, a few innovators realised that the traditional business model could be merged together with the Internet leading to brilliant results, including the rising of profit. Consumers were not interested in exploring a completely new market and online shopping platforms were in their inception phase. Just a few companies started to experiment and to be involved in online B2B (from business-to-business) transactions, while the C2C (from consumer-to-consumer) transaction did not exist yet. The most important companies were Alibaba and 8848.com. In this initial phase, the most relevant problems that the e-commerce industry had to cope with were the limited number of Chinese internet users (only around 4 million), the inefficient logistic infrastructures and the lack of trust of consumers, who were not confident in using online payments because of the fear of online fraud.

### II. The developing phase – from 2000 to 2007

Starting from the 2000s, Chinese e-commerce became more and more relevant for the development of China's national economy and it served as a new trading channel for companies and customers. At the end of this phase, according to the CNNIC data, as reported in Hongfei Yue National report on e-commerce development in China, the number of internet users reached 210 million people and the amount spent on online shopping grew up to 56.1 billion CNY.<sup>5</sup> In general, the developing phase is characterised by the increasing importance of the C2C business model, with the establishment of Taobao. Simultaneously, Alibaba invested in Alipay, an online payment platform, which led to the decrease of the lack of faith in long-distance purchases. Together with the development of the e-commerce, the requirement for a legal system emerged: in 2004, the “Electronic Signature Law of the People's Republic of China” was created “*in order to standardise acts of electronic signature, validate the legal effect of electronic signature, and safeguard the lawful rights and interests of the parties concerned*”.<sup>6</sup>

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<sup>5</sup> Hongfei Yue, « National report on e-commerce development in China », Department of policy, research and statistics, Beijing Normal University, 2017

<sup>6</sup> [http://www.npc.gov.cn/zgrdw/englishnpc/Law/2007-12/05/content\\_1381960.htm](http://www.npc.gov.cn/zgrdw/englishnpc/Law/2007-12/05/content_1381960.htm) - last consultation 24/02/2022

### III. The evolution and the standardization stage – from 2008 to 2014

The third phase is characterised both by the increasing importance of e-commerce and the increasing worry of the Chinese government to control this new market. As a consequence, a lot of policy management systems and standards were created in order to monitor and regularize e-commerce in China. The policy management systems include the "E-commerce model specification", the "Online shopping service standard" and also "The Third-Party E-commerce Transactions Platform service specification", launched respectively in 2009 and 2011.<sup>7</sup> In this phase, the Chinese cross-border e-commerce also boosted. Cross-border e-commerce can be defined as purchasing or selling goods from an internet website of a country in another country. Cross-border e-commerce has been supported by the on-going process of globalisation and it allows consumers to broaden their purchasing choice.

### IV. The mature and the globalized stage – from 2014 onwards

The current phase is characterised by a huge number of internet users that can use an ever-greater number of e-commerce platforms. Nowadays, the e-commerce activity in China is more profitable than in any other country in the world. According to China's National Bureau of statistics, Chinese consumers spent a total of \$750 billion in 2016, more than the US and UK combined together. Together with the development of e-commerce, m-commerce is becoming more and more important. M-commerce stands for Mobile commerce, which refers to the use of the mobile phone to handle e-commerce, through the use of apps. China can be defined as a pioneer in m-commerce, with a great number of consumers skipping from the PC to the smartphone. This may explain why, for example, Samsung's large-screen phones have a much higher market share in China than in the West. The following figures<sup>8</sup> show the growth of the mobile internet traffic, from nearly 88.9 million GB in 2017 up to 745 million GB in 2020, and the usage of internet access devices. From the second figure we can notice that the use of mobile phones has become the only way to access the internet (99%), which means that almost all the browsing is via mobile.

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<sup>7</sup> Hongfei Yue, « *National report on e-commerce development in China* », Department of policy, research and statistics, Beijing Normal University, 2017

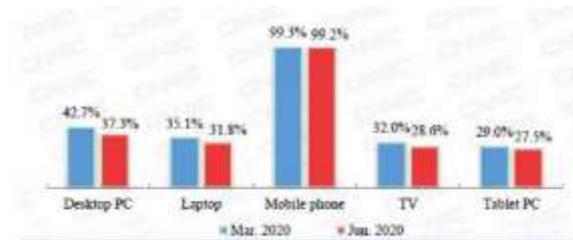
<sup>8</sup> Source: CNNIC Statistical Survey on Internet Development in China, June 2020

Figure 1.4: Mobile internet access traffic



Source: CNNIC Statistical Survey on Internet Development in China, June 2020

Figure 1.5: Usage of internet access devices



Source: CNNIC Statistical Survey on Internet Development in China, June 2020

To conclude, Chinese e-commerce has rapidly spread in the last decade and the e-commerce penetration in China will become even higher, which may come as a surprise to the West. Today, Chinese consumers can buy all kinds of products, but also services online, from organic food to luxury cars. Over the next five years, the online shopping population will continue to expand as the product offer will not cease to increase.

### 1.3 Characteristics of Chinese e-commerce

As already said, Chinese e-commerce in more or less 20 years has become one of the most important driving forces of the country's economy. If we want to discuss about the characteristics of e-commerce, we cannot omit the following points:

1. Chinese consumers are eager to spend a lot of money and a lot of time shopping online. In their opinion, shopping is not just a transaction, but it is also a social behaviour, that is strongly

influenced by friends, celebrities, and KOL<sup>9</sup>. The following graphic shows the user size and the utilisation ratio of Online shopping between June 2017 and June 2020.<sup>10</sup>

Figure 1.6: Online shopping - utilization rate



Source: CNNIC Statistical Survey on Internet Development in China, June 2020

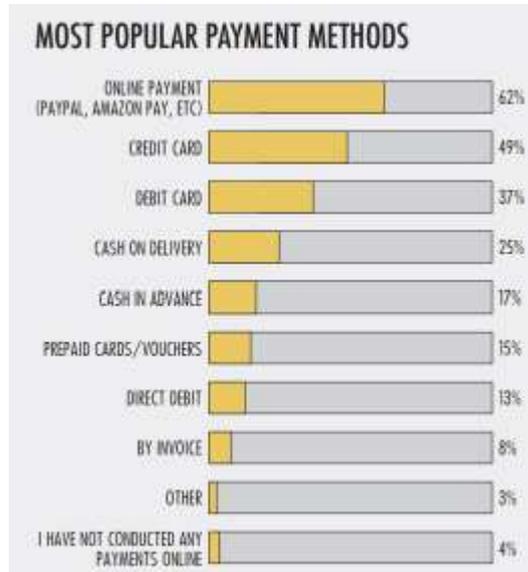
2. Chinese e-commerce makes use of multimedia and multiple channels to reach and engage consumers, and this format is becoming increasingly sophisticated today. Moreover, Chinese e-commerce is at the forefront of using data analysis and consumer insights in order to better understand consumers' demand and desires to develop truly consumer-driven products.
3. Chinese e-commerce uses integrated platforms: unlike online shoppers in other countries, Chinese consumers rarely visit the official websites of companies or brands, while they prefer to discover products through Taobao, Aiki or the most popular social-media platform – WeChat. As a consequence, what is important for companies is not to develop a sophisticated website, but to be present on the so-called “Super Apps – 超级应用 (Chāojí yìngyòng)”. These super apps offer a variety of online and offline services and they are developed only in China, which means that in other countries consumers have to download a different app for each shopping activity.
4. Due to the fact that Chinese consumers tends to avoid being in debts, which stems from their Confucian culture and tradition, the use of credit cards is limited and this has favoured the development of electronic payments. As a consequence, in comparison with other countries, Chinese consumers are not afraid of making online payments. In other words, the rapid development of e-commerce is strongly related to the development of online payments too.

<sup>9</sup> KOL stands for Key Opinion Leader, which is also known as an “influencer” in the Western countries.

<sup>10</sup> Source: CNNIC Statistical Survey on Internet Development in China, June 2020

The following graphic<sup>11</sup> clearly shows what has just been said: the highest percentage of Chinese consumers prefer using online payment to carry out online transactions.

Figure 1.7: The most popular payment methods



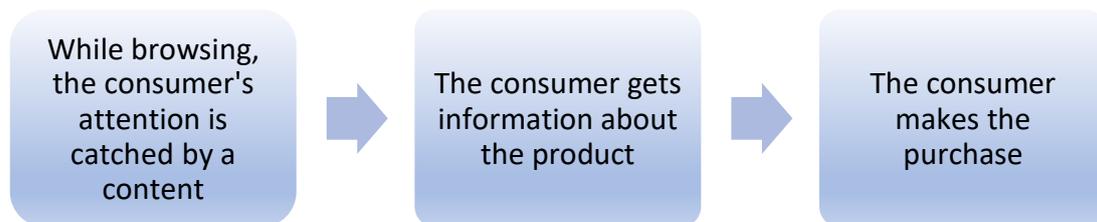
Source: Statista Global Consumer survey - 2020

<sup>11</sup> Source: Statista Global Consumer survey - 2020

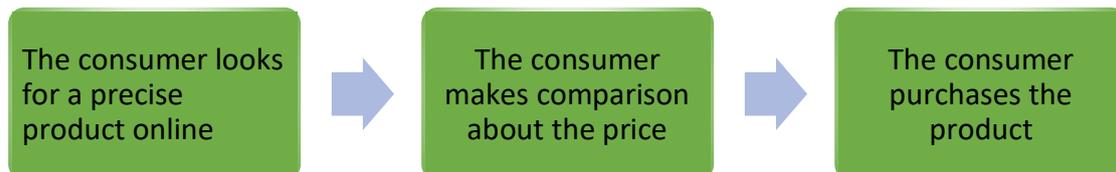
#### 1.4 The most important e-commerce platforms: social e-commerce platforms VS traditional e-commerce platforms

At this point, it is really relevant to discuss the most important and used e-commerce platforms in China, making a distinction between the social e-commerce platforms and the traditional one. Generally speaking, consumers choose to use a social e-commerce platform because of their curiosity and so these platforms are designed as to attract the attention of users and to convince them to make a purchase; contrariwise, traditional e-commerce platforms aimed at those who already have a fairly clear idea. The following figure summarises what has just been said:

Social e-commerce platforms:



Traditional e-commerce platforms:



One of the most important social e-commerce platforms in China is Little Red Book (小红书 - Xiǎo hóng shū), also known as RED. According to data<sup>12</sup>, in 2019, Little Red Book had more or less 300 million users, with almost 90% of users being women. It is an open application, which means that anyone can interface with its contents, even without registering. Posts that appear on the homepage are displayed on the basis of the user's preferences, which are requested in advance when the app is first opened. In addition, the algorithm proposes the contents of people followed and those in the proximity. Since Little Red Book was born as a shopping guide, the posts and comments are intended to "educate" the user about a certain product. There is no real advertising: it is not the companies that advertise the products, but it is the user himself/herself who comment on the products. This creates a strong engagement between those who post, those who view and the brand behind the recommended product. What happens is that sometimes the brand is not officially present on the platform and so

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<sup>12</sup> <https://en.wikipedia.org/wiki/Xiaohongshu>

users unconsciously start to promote new brands and so, for international brands not yet present in the Chinese market, Little Red Book can also be a tool used by them in order to test the ground. Besides Little Red Book, the other two most used social platforms are WeChat and Weibo: it is impossible for companies to work in the luxury goods market and not be present on these platforms. The usage of these platforms allows companies to promote their campaigns and products to increase brand engagement. On WeChat, companies can use the official accounts – which are divided into subscription accounts and service accounts. A service account (服务号 - Fúwù hào) can be created only by companies and it is usually used in order to implement advertising campaigns or offer tools to existing customers. On the other hand, a subscription account (订阅号 - Dìngyuè hào) can be used both by companies and common people and the final purpose is to attract new followers or retain them by sharing content. Starting from 2017, WeChat launched the “Mini programs”, which are applications within WeChat itself that aim at facilitating content promotion. These applications are faster and “slighter” (in terms of gigabytes) than WeChat itself. Considering the traditional e-commerce platforms, Alibaba is the leading platform: it is the colossus from which the Chinese e-commerce was born and it is also the first platform to use m-commerce, with Tmall. One of the main reasons for the success of Alibaba is its own payment system, Alipay. Through the use of Alipay, the consumer feels confident in making the purchase as he/she can “freeze” the payment amount and then – only after seeing the product – he/she can complete the payment. Alibaba has also entered the world of luxury through the Tmall Luxury Pavilion. Indeed, in August 2018, Tmall officially launched a new platform entirely dedicated to luxury, called Luxury Pavilion. Designed for high-end users, this platform was created to offer a bespoke service to maximise user experience and brands' relationships with consumers. Although aimed at a small niche, Luxury Pavilion has a presence of over 500 million users and has the potential to become the largest e-commerce platform for luxury brands. The second largest e-commerce platform is JD.com, followed by VIP international, Suning.com, Farfetch, and Secoo. The following graphic<sup>13</sup> outlines who are the biggest e-commerce players in China:

Figure 1.8: The biggest e-commerce platforms



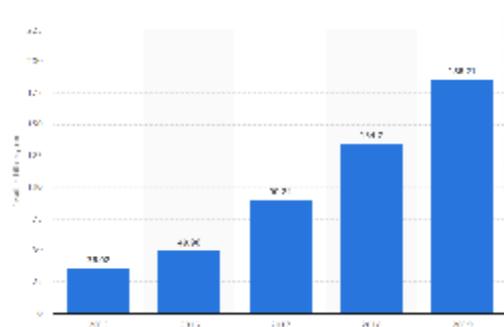
Source: Statista, 2019

<sup>13</sup> Source: Statista, 2019

### 1.5 The status and the key problem of China's cross-border E-commerce

Considering the evolution of Chinese e-commerce, it is relevant to discuss the status and the key problem of China's cross-border E-commerce. Generally speaking, cross-border ecommerce refers to transactions between business and consumers (B2C), between business and business (B2B) or between consumers and consumers (C2C). According to the latest data available<sup>14</sup>, the import-export retail value of China's cross-border e-commerce has increased from 36.02 billion yuan in 2015 up to 186.21 billion yuan in 2019.

Figure 1.9: Import-export retail value of China's cross-border e-commerce



Source: Statista, December 2020

Discussing about the main reasons why chinese consumers want to try cross-border e-commerce, the higher quality and the novelty of overseas markets' products seem to be the most attractive factors. Nevertheless, Chinese consumers also consider the cost-factor. Nowadays, the most important Chinese cross-border e-commerce platform include Tmall Global (天猫国际 – tiānmāo guójì) - which is a B2C platform, owned by Alibaba, Kaola, JD Worldwide, Vip International and Suning International; on the other hand, the most relevant non-chinese cross-border e-commerce platform, used in China, is Amazon. which has to face the fierce competition of Alibaba and JD.com. On Amazon China, consumers cannot find the same products, which means that the line of products sold in China differs from the one that is present in other countries. Moreover, Amazon China does not have in-house warehousing and logistics and, as a consequence, the costs of products increase.

<sup>14</sup> Source: Statista, December 2020

The following graph<sup>15</sup> represents the market share of the aforementioned platforms:

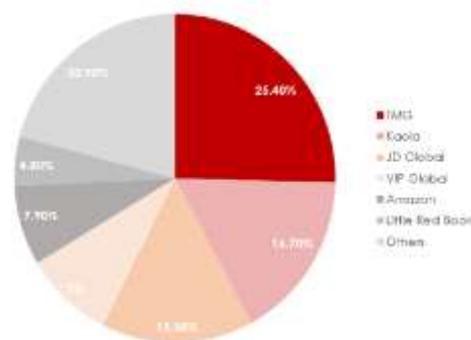


Figure 1.10: market share of e-commerce platforms in China

It is now important to discuss the main problems that the Chinese cross-border e-commerce has to deal with. The first problem is related to the payments: usually, payments are managed by specialised agencies, the so-called Payment Agencies. What emerges is that they are just paying and clearing organisations and their management is not so clear. The two most important Payment Agencies are Alipay and WeChat Pay. The two apps are used in a similar way: people must link their bank account to the app and then they can pay for purchases by scanning the merchant's QR code. These payments have not yet been integrated into the Chinese central bank's clearing system, making it more difficult for China's currency authorities to track capital flows and monitor money laundering and fraud. The second problem is strictly related to the taxation and regulation that the Chinese government has introduced. With the introduction of the "E-commerce Tax Circular", which became effective starting from April 2016, tax policies related to cross-border transactions were changed. The most relevant implication of this new rule is the introduction of an individual capital expenditure limit of 20,000 renminbi per year. In addition to the "E-commerce Tax Circular", the Chinese government also drew up the "Positive List", which is a roster of products that can be "freely" bought or sold in China. What happens is that goods that are not present in the list are taxed with different percentages (from 15% up to 60%) depending on the type of product. The last problem is related to privacy: when consumers use an e-commerce platform, the platform has automatic access to all their personal data. Platforms usually use data in order to turn themselves into marketing platforms, by offering to consumers a customised service. Despite using data within its own ecosystem, Alibaba affirmed that it will not sell data to other companies, but the reality seems not to be this. To conclude, in this first chapter, we have discussed the fast development of the internet in China which represents the bedrock for the development of e-commerce itself. The e-commerce platforms represent an important tool that companies can use, better say must use, if they want to have success in China. What we have just said

<sup>15</sup> Source: iiMedia Research, 2021

has become more and more relevant after the Covid-19 World pandemic, as online transactions have progressively increased as an alternative to physical shops, which were closed during the lockdown. For this reason, a foreign company that is going to start its process of internationalization in China cannot avoid understanding which are the most important e-commerce platforms and how to be present on them.

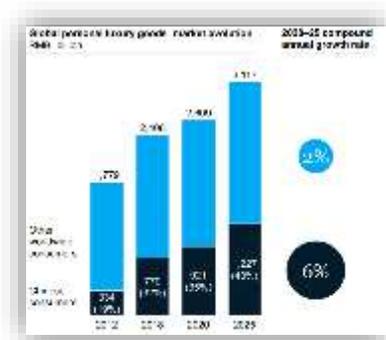
## ***The Chinese luxury goods market: customers and trends in the fashion industry***

In this second chapter, I'm going to discuss about the Chinese luxury good market, particularly considering the fashion industry. I'm going to profile the Chinese consumer, making a distinction between the new generation ("Generation Z") and the older generation, by discovering where the differences lie, moving then to the discussion about the different channels of sales. Lastly, I'm going to talk about the strategies that companies should follow as to win in the luxury market, also considering the impact of COVID-19 and the consequent increase of the digitalization.

### ***2.1 Luxury goods market evolution in China***

Generally speaking, China has entered in the luxury goods market somewhat quietly. The first consumers experimenting this new market were people in their 40s and 50s, mainly abroad: buying a well-known branded product was a mean with the aim of showing off their richness once back in the mainland. With the increasing development of the internet, the web has made consumers more conscious, but also more pretentious, about the purchase: nowadays, it is not enough to be a famous brand in order to attract consumers, but it is also relevant to guarantee reliability, quality, and originality. Chinese consumers are ever more sophisticated and their requests are more and more intricate. According to data presented in McKinsey Report (2019), starting from 2012, China's luxury market has grown up to the 35% of the global market in 2020. Predictions say that Chinese luxury market will account for the 65% of the market before the end of 2025. In the following figure we can see that chinese consumers spend over 770 billion RMB in 2020 for luxury goods (including ready to wear, accessories, watches and jewels, and beauty) and this amount is thought to reach 1.2 trillion RMB by 2025<sup>16</sup>.

*Figure 2.1: Global personal luxury goods market evolution*

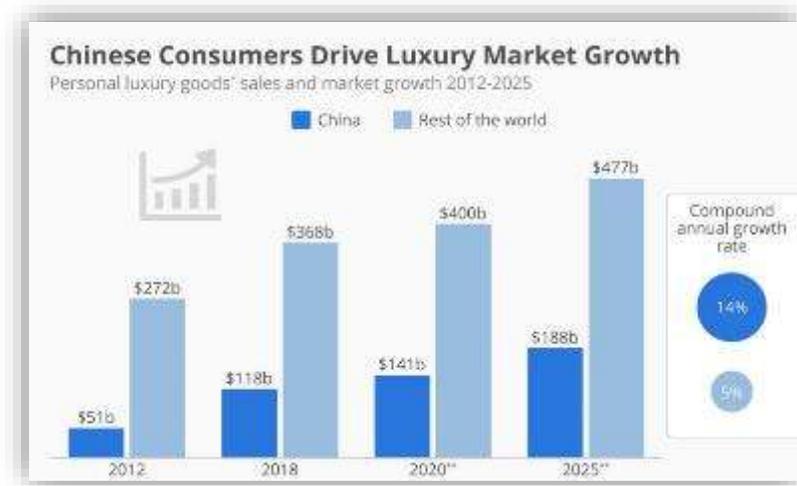


*Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019*

<sup>16</sup> McKinsey Greater China's Apparel - Fashion and Luxury Group, *China Luxury Report*, 2019

Making a comparison with the rest of the world, we can definitely say that China is leading the luxury goods market. According to data presented by Statista and based on McKinsey report of 2019, the prevision about personal luxury goods sales in China were around \$141 billion, which represent the 35% of the global expenditure for luxury goods (\$400 billion).

Figure 2.2: Personal luxury goods sales and market growth 2021-2025



Source: Statista, 2019

According to the latest data available in the report written by Evelyn Cheng<sup>17</sup> for CNBC, the global spending on luxury goods in 2021 ended up at \$320.6 billion (283 billion euros) and, considering that Chinese consumers' spending reached \$73.59 billion (471 billion yuan), the chinese luxury market accounted for more than the 44%. Talking about the history of the development of the luxury goods market in China, it is only in the 90s that companies began to sell these types of products, particularly in the first-tier cities, such as Beijing, Shanghai, Guangzhou, and Shenzhen. These cities were more open than the other to the trade with Western countries, with a more developed economy and with higher incomes (and so consumers' purchasing power was greater). Forefront international companies immediately understood that the Chinese market would be an opportunity not to be missed, because of the great purchasing potential and the world's largest population. For instance, in 2005, Louis Vuitton had just opened 5 stores in China, but in 2010 this number increase up to 36 stores in 29 cities; Gucci in 2006 only had 6 stores in China, but in 2010 it opened 39 stores. These examples clearly show the strategies that almost all companies decided to follow, which is to start from first-tier cities and then to move to second-tier or third tier ones. In this evolution, the role of the chinese government

<sup>17</sup> Evelyn Cheng, *China's consumers spent \$73.6 billion on luxury goods at home last year, up 36% from 2020*, in CNBC 24.01.2022, available at <https://www.cnbc.com/2022/01/24/chinas-consumers-spent-73point6-billion-on-luxury-goods-at-home-in-2021.html>, last consultation 08.03.2022

was relevant: due to the anti-corruption policy, there was one percentage point decrease (from 31 to 30 percent) in the purchase of luxury items.<sup>18</sup> Starting from 2012, this law was reinforced by Xi Jinping, the 7<sup>th</sup> President of the People’s Republic of China, as he noticed that goods bought with state money included the 25% of all luxury spending in China. Both Chinese and International companies are therefore adapting and complying with this law, especially by developing new products to attract the new emerging class, i.e., the middle class<sup>19</sup>. Moreover, Chinese government intervened with very high tax rate, such as the 10% for jewellery or the 40% for yachts. Considering bags, customs duty rate oscillates between 10 % and 20 %.<sup>20</sup> The government has declared its willingness to reduce the tax burden, as to push chinese people to buy luxury products in the mainland and not abroad.

Figure 2.3: Customs and Consumption tax rate on Chinese luxury products

Product	Customs duty rate (%)	Consumption tax rate (%)
Jewellery	0-35	10
Watches	11-23	20
Clothing	14-25	n/a
Bags	10-20	n/a
Wine	0-65	5-20
Cosmetics	6.5-15	30
Golf equipment	12-14	10
Automobiles	25	1-40
Yachts	8-10.5	10

Source: KPMG, Global Reach of China Luxury, 2018

For sure, we can say that the chinese luxury market accounts for more than a third of the global luxury market and it is constantly expanding, due to the fact that chinese consumers have more and more money to spend. Chinese consumers do not only spent money on luxury goods in the mainland, but they are used to spend a lot when they travel. According to data presented in a report done by Financial Times in October 2019, chinese tourists constitute nearly the 17% of all global luxury sales. As a result of all the elements that we have discussed, Chinese luxury market can be described by using two adjectives: young and promising. What international companies should do is to carefully develop a strategy to use in this market not to miss such a great opportunity.

<sup>18</sup> Claudia D’Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier (2016), *Luxury Goods Worldwide Market Study*, in Bain Report, 2016

<sup>19</sup> Ahleigh Holcz, *The Economics of Anti-Corruption: The Chinese Luxury goods Market*, June 2016, available at <https://www.curias.net/politics/2016/6/11/the-economics-of-anti-corruption-has-chinas-luxury-goods-market-lost-its-shine>, last consultation 08.03.2022

<sup>20</sup> KPMG, *Global Reach of China Luxury*, 2018

## 2.2 Profiling Chinese consumers: Generation Z VS the older generation

After having discussed about the evolution of the Chinese luxury market, we move our attention to the protagonists of this market, the consumers. I will try to clarify who are the consumers, underlying the difference between the older generation and the emerging one, i.e., the Generation Z. Considering data coming from China Luxury Report of 2019<sup>21</sup>, we can notice that the oldest generation (post ‘65s and 70’s) represents the 22% of the total luxury spending. They are aware only of the best-known brands and, as a consequence, the brand-status represents the key point for companies to attract them. On the other hand, the Generation Y or “Millennials” (post ‘80s) represents the 56% of the total luxury spending and they were born in the economic boom, so they are the consumers with the highest purchasing power. Finally, the Generation Z represent the 23% of the market and they constitute those consumers that companies should win over aiming to secure future sales.

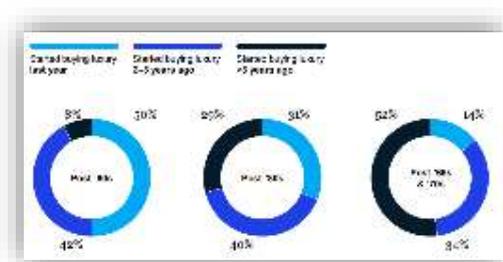
Figure 2.4: Annual luxury spending by generation



Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019

Furthermore, considering the economic possibility of the various classes according to their age, by analysing data, we can affirm that more and more people have started buying luxury goods since 2018. As remarked before, the approach of consumers to this new market was slow, but thanks to the introduction of social and e-commerce platforms, everything now is faster. Consequently, the Generation Z has started to spend money and to invest on luxury products faster and with a greater inducement than the older one.

Figure 2.5: Percentage about when people started to buy luxury products



Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019

<sup>21</sup> McKinsey Greater China's Apparel - Fashion and Luxury Group, *China Luxury Report*, 2019, cit.

This figure shows us that the majority of the post '90s generation (50%) has started buying luxury products in the previous year, while only the 31% of post 80s and the 14% of the post '65 and '70s are new to the market. This explains why it is important for companies to focus on the new generation, whose demands are completely different from those of “traditional consumers”. Bain & Company report of 2020 described Generation Z as “*an emerging source of market growth in their own right, as well as having a powerful influence on increased digitalization*”.<sup>22</sup> It is now relevant to discuss about what are the main differences between these two generations and what are the elements that companies must consider with the purpose of attracting them in order to both generations? For the older generation, owning luxury items is a way of showing off their economic possibilities in society and enhancing their status quo, while for the younger generation, being able to buy luxury products represents a desire to stand out from society, highlighting one's personality and differentiating oneself from the crowd. Of course, it is also important for them to be able to show that they have the opportunity to be part of a fashion community, to be able to keep up with fashion and trends<sup>23</sup>. What they want to demonstrate is their ability to always be new, not to repeat themselves, to wear the latest product in the collection every time. For them, the name of the brand is not so important. On the contrary, they look for niche brands in the luxury goods market in order to stand out and distinguish themselves from others. This does not mean that the name and status of the brand is no longer relevant, but the new trend is to go beyond the simple image of brands that became famous years ago: young people increasingly want something new, something that was born and develops with them, that can represent their desires, their interests, their tastes and not conform to tradition just because it is the only recognised symbol of luxury. This attitude is clearly the result of the Generation Z's desire to build their own world, detaching themselves from the world created by the previous generations, in an effort to show that they are independent and self-sufficient<sup>24</sup>. What emerge is that if the previous generations had the brand name as an almost unique parameter, the new generation is now evaluating a lot of different parameters, which include the price, the material of products, the design and style and, finally, the production method. Considering the price, Generation Z uses online platforms to compare the prices of products, including luxury goods produced abroad. These goods are usually cheaper than China's one as they are almost tax-free. Secondly, they pay a lot of attention to materials: they avoid buying products on display in the shop window or placed on the shelves: they always want the product still wrapped as a symbol of authenticity and intact quality. The method of production is

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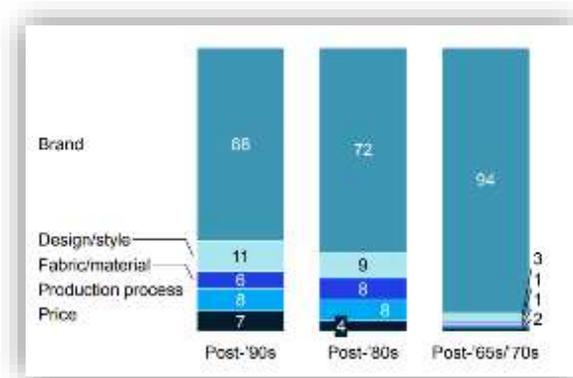
<sup>22</sup> Bain & Company, Inc. and Tmall Luxury Division, *China's Unstoppable 2020 Luxury Market*, 2020

<sup>23</sup> Vogue business team, *Three key trends of China's young luxury consumers*, in Vogue business, August 2020, available at <https://www.voguebusiness.com/consumers/three-key-trends-of-chinas-young-luxury-consumers>, last consultation 13.03.2022

<sup>24</sup> Deloitte, *Global Powers of Luxury Goods 2017: The new luxury customer*, Deloitte Touche Tohmatsu Limited, 2017

also really relevant: in fact, they pay a lot of attention to component analysis. In other words, it is important to them that there are no parts made in China. Generally, the “Made in China” is associated with poor quality, and so they require a 100% “foreign product”, which means without parts coming from China. Last but not least, as before mentioned, one of the most important qualities for the new generation is novelty: design and style become the key to success for companies, which have to constantly innovate, launching new collections with different characteristics from the previous ones.<sup>25</sup> The following figure<sup>26</sup> sums up what we have just presented, representing the main reasons for consumers to buy luxury goods:

Figure 2.6: The main reasons for Chinese consumers to buy luxury goods



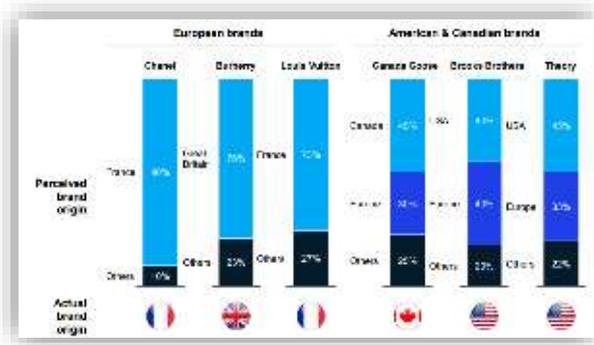
Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, *China Luxury Report*, 2019

Returning to the theme of the brand, another feature is the greater awareness of the origin of the brand: at one time, Chinese customers had no awareness of the brand's country of origin, they were only interested in the fact that the products were not made in Asian or in underdeveloped countries. Considering brands such as Chanel, Burberry, or Louis Vuitton, the awareness of these brand is very high, while for American and Canadian brands there is still a lot of uncertainty as they are still little-known products in the Chinese market. From the graph below, we can see that European brands are well-known in the Chinese luxury market, while American and Canadian ones have yet to make their way.

<sup>25</sup> Branigan, T. (2011), *China's taste for high-end fashion and luxury brands reaches new heights*, in The Guardian, April 2011, available at: [www.guardian.co.uk/world/2011/apr/26/china-super-rich-demand-luxury-brands](http://www.guardian.co.uk/world/2011/apr/26/china-super-rich-demand-luxury-brands).

<sup>26</sup> McKinsey Greater China's Apparel -Fashion and Luxury Group, *China Luxury Report*, 2019, cit.

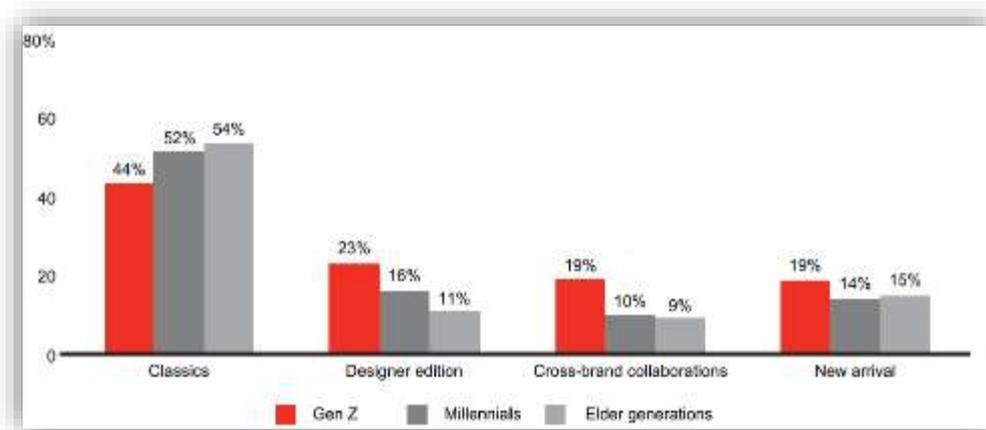
Figure 2.7: Luxury brand awareness in China



Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019

In conclusion, the main difference between the generations just compared is the search for novelty: the older generations are tied to the so-called “great classics”, while the newer generations are looking for innovation and also for collaborations between different brands. Data coming from a survey realized by Tmall in 2020, support this statement:

Figure 2.8: What consumers look for considering the different generation



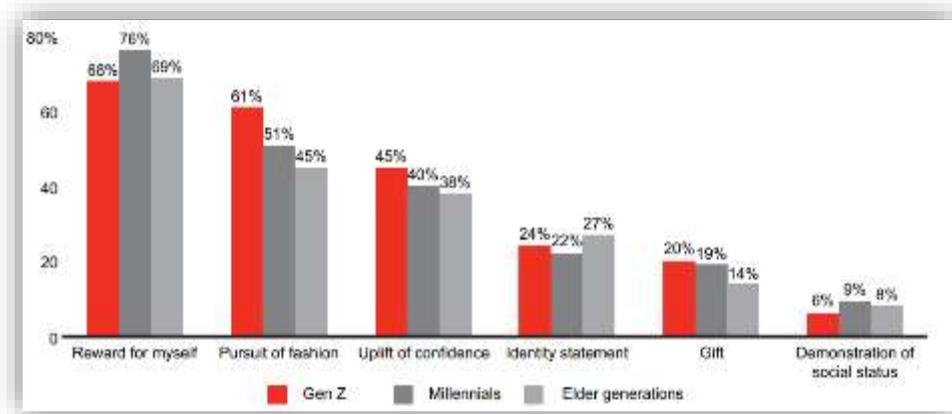
Source: Bain & Company, Inc. and Tmall Luxury Division, China's Unstoppable 2020 Luxury Market, 2020

Considering now the reasons why chinese consumers decide to buy a luxury product, both Generation Z and the older generations answered saying that it represents a reward for themselves, but Generation Z also underlined the fact that the purchase of luxury goods is really a “fashion hunt”, a pursuit of new trends.<sup>27</sup> It is quite surprising that a low percentage of people indicate the demonstration of their social status as a reason for purchase. This is probably an indication that the approach to the world of

<sup>27</sup> GMA, *Luxury China: Market, trends & analysis*, in GMA, April 2021, available at <https://marketingtochina.com/china-luxury-market-guide/>, last consultation: 13.03.2022

luxury is changing: initially, this was the predominant motive among Chinese consumers, whereas now it appears to be the most important.

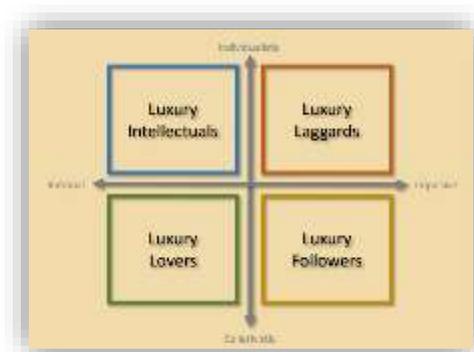
Figure 2.9: Reasons why Chinese consumers buy luxury products



Source: Bain & Company, Inc. and Tmall Luxury Division, *China's Unstoppable 2020 Luxury Market*, 2020

In an attempt to make a division into categories of luxury customers in China, we can refer to the book "Elite China", written by Pierre Xiao Lu<sup>28</sup>. According to its division, it is possible to identify 4 different categories, which are the *Luxury Lovers*, *Luxury Followers*, *Luxury Intellectuals*, and *Luxury Laggards*. The first two categories include those consumers who are most influenced by the outside world: the purchase of luxury goods is for them a means to attract attention and gain the consent of people. They tend to pay more attention to the history of the brand and its popularity, researching those brands that are more active and famous on social media, magazines or at fashion shows. On the other hand, luxury intellectuals and luxury laggards are usually more attentive to the comfort and functionality of the product: they are therefore more attracted by the classic style and simple collections, because for them what is most important is the demonstration of their status quo.

Figure 3.10: classification of Chinese Luxury consumers



<sup>28</sup> Pierre Xiao Lu, *Elite China: Luxury Consumer Behavior in China*, John Wiley & Sons Inc, 2008

If we want to find out which are the key segments in which we can divide luxury consumers in China, referring to the data emerged in the elaborated realized by KPMG<sup>29</sup>, we can create 4 categories, which are the traditional business elite, the new and modern shoppers, empowered women and finally the generation resulting from the one-child policy. The first category is generally represented by a man, over 40 years old, who buys luxury products for a long time. Therefore, they are used to buy the same type of products and the same brand and they are reluctant to experiment with something new. The second group includes businessmen or celebrities who have recently made money. Compared to the first category, they pay much more attention to the product, in terms of design and materials. It is not just a question of fame, but above all a question of quality. The third category consists mainly of women who have managed to gain a position within Chinese patriarchal society. By becoming rich, they acquire the ability to spend more money and luxury goods become a means of showing their new social status. Lastly, the generation resulting from the one-child policy includes all the only-children, entering in their adulthood. This category is more familiar with social media and is very attentive to fashion and trends of the moment. From what is discussed in this subchapter, what emerges is that companies must pay attention to the needs of consumer groups with different demands to survive in the Chinese market. This is because the generation Y is still the generation with the highest purchasing power and therefore represents the "present", that is what determines at this time brand's success in economic terms; nevertheless, to ensure a future, brands must also consider the new generations, paying particular attention to what is relevant to them, since they represent "the future success" of the company itself within the market. This represents a real challenge and only those companies that conduct a correct market analysis can understand what strategies to use to ensure success both in the present and in the future time.

### *2.3 Channels and sales: the growing importance of KOL*

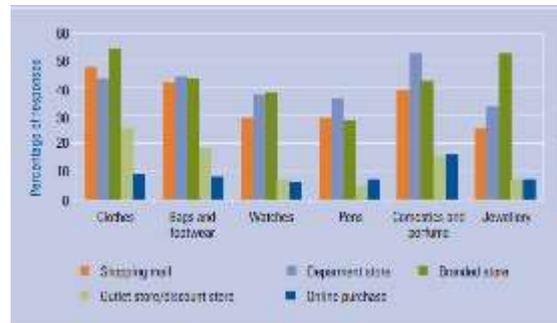
After analysing Chinese consumers, it is also relevant to discuss about the different channels that companies are using as a means to sell luxury products in the market. It is crucial for companies to define which distribution channels to use and this choice is particularly influenced by the target market. In the luxury goods market, most brands decide to choose different distribution channels (multi-channel), combining physical stores with online presence. We can therefore disengage store-based channels from non-store-based ones. The first category includes concept stores, boutiques, department stores, outlets, and airport stores; the second group includes Official websites, e-

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<sup>29</sup> KPMG, *China's connected consumers: a mobile evolution*, in KPMG International Cooperative, 2016

commerce platforms and social-e-commerce platforms<sup>30</sup>. The following picture shows the choice of retail format for luxury purchases of Chinese people.<sup>31</sup> For almost all the categories of products, consumers prefer to go directly in the branded store (i.e., Boutique) or to the shopping mall, while the online purchase is still a minority.

Figure 2.11: Choice of retail format



Source: KPMG, *Luxury brands in China*, Monash University, 2007

### Store-based channels:

#### 1) Concept stores

Concept stores are independent stores where you can find products from different brands. Usually, these are rather small shops, where the choice of products is guided by the demands of consumers themselves. Usually there is a “personal buyer”, whose "mission" is to create a relationship with customers. Commonly, consumers can find the latest products launched on the market, but also the most classic collections ("must-have"). An example of concept store is ENG. ENG is a multi-brand concept store, owned by Sherry Huang. According to data coming from an article on Vogue Business, “*In 2020, ENG generated RMB 8.9 million (\$1.4 million) in turnover.*”

#### 2) Boutiques

The second type of physical stores are precisely the boutiques. Boutiques are usually smaller, single-brand or multi-brand stores. Single-brand boutiques are opened and managed by brands themselves, while multi-brand boutiques are controlled by distribution channels. Considering the boutiques, one of the elements that most influence the final purchase is the qualification of the staff. Another factor is the environment itself: the boutique must allow the consumer to live a real

<sup>30</sup> Annachiara Biondi, *Inside Shanghai's coolest concept store*, in Vogue Business, June 2021, available at: <https://www.voguebusiness.com/consumers/inside-shanghai-coolest-concept-store-eng-gen-z>, last consultation: 12.03.2022

<sup>31</sup> KPMG, *Luxury brands in China*, Monash University, 2007

shopping experience. In almost all the official sites of brands, there is a section that allows consumers to identify the closest boutique<sup>32</sup>. Here are some examples, taken from the official websites of brands:

Figure 2.12: Louis Vuitton boutiques in China



Source: Louis Vuitton official website

Figure 2.13: Gucci boutiques in China



Source: Gucci official website

By making a comparison, it seems that most brands choose to locate their stores in large cities, and very often, in major shopping centres<sup>33</sup>. The main reason is the greater presence of potential consumers and therefore the greater possibility of earning. Despite this, it is essential for companies to open more and more unique boutiques, just to stand out and differentiate themselves from the competition. For example, one element that many brands are experimenting with is the creation of increasingly technological boutiques, thus combining physical presence with online presence. A greater example is the new Burberry boutique, opened in Shenzhen (2020). In Burberry's new store,

<sup>32</sup> Calvin Chong, *Burberry: il nuovo store a Shenzhen e la tecnologia Tencent*, in L'Officiel, July 2020, available at: <https://www.lofficielitalia.com/shopping/burberry-lancia-il-primo-negozio-al-dettaglio-sociale-di-lusso-a-shenzhen-con-la-tecnologia>, last consultation: 12.03.2022

<sup>33</sup> Yiling Pan, *8 High-End Shopping Malls Sought Out by Luxury brands in China*, in Jing Daily, August 2017, available at: <https://jingdaily.com/8-high-end-department-stores-under-chinas-new-retail-regime/>, last consultation

it is possible to combine the physical retail experience with social media. Marco Gobbetti, CEO of Burberry, during an interview, affirmed: *“Determined to innovate social and retail, we chose China as the most suitable place to find customers of luxury products more experienced in digital technology. Together with Tencent, we paved the way for a new concept that will redefine luxury retail expectations. The first step of this exclusive partnership will be to make Burberry’s social store in Shenzhen a place of discovery that connects and rewards customers as they virtually explore online and physically in-store.”*

### 3) Department stores

The main difference between department stores and boutiques is the product range. They are usually bigger than boutiques and host different brands. In addition, often expedients such as loyalty cards are used to create a loyalty relationship with customers. Their goal is to attract consumers and offer them the opportunity to buy products of different brands in one place, without needing to move to different cities. Obviously, they are located in the centre of the big cities. The most important ones are SKP Mall in Beijing, Yintai Department store in Beijing too, Taikoo Hui Shopping Center in Guangzhou, Plaza 66 Shopping center in Shanghai, and Golden Eagle International Shopping Center in Nanjing. It is important to point out that department stores are increasingly losing customers, due to the development of online platforms. To survive, they are trying to innovate, including technology in their stores. According to the report done by Fun Business Intelligence in 2017, starting from 2016, department stores in China started to deal with these problems, as more and more department store operators began to explore new retail formats, such as the O2O one (Online-to-offline).

### 4) Outlets

Outlets are not very popular in China because Chinese consumers associate the image of this type of store with poor quality.<sup>34</sup> Example of Outlets are Florentia Village, Redtory, and Dameisha Outlets. Florentia Village Outlet is a well-known Italian outlet and it is also the first international luxury outlet that opened in China. According to data, nowadays Florentia Village has 7 outlets with more than 1.200 stores in China (Beijing, Shanghai, Guangzhou, Wuhan, Chengdu, Chongqing and Hong Kong). Jacopo De Vena, the Manager Director of RDM Asia, during an interview said: *“From early on, our intention has been to offer a unique Italian shopping experience to our Chinese customers, by providing a combination of amazing brand mix, authentic products, accessible locations,*

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<sup>34</sup> Annachiara Biondi, *Understanding luxury in China: Designer outlets*, in Vogue Business, January 2021, available at: <https://www.voguebusiness.com/consumers/understanding-luxury-in-china-designer-outlets>, last consultation 12.03.2022

affordable prices, and unbeatable service. We aim to make Florentia Village the leading international luxury designer outlet in China.”<sup>35</sup>

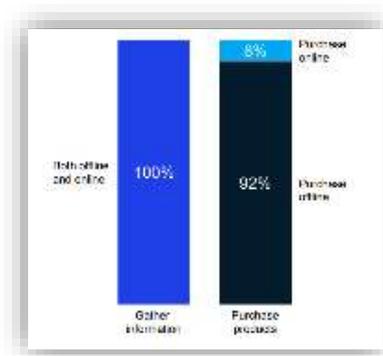
#### 5) Airport stores

The last category of physical stores includes stores inside airports: many airports have been designed with the intent to create large spaces in which to create duty free areas<sup>36</sup>. For example, Lagardère Travel Retail decided to invest in the Chinese Airports of Shanghai and Shenzhen, by opening eight fashion and beauty boutiques. One of the reasons these stores work is for sure convenience, as the products are not directly taxed.<sup>37</sup>

#### Non-store-based channels:

Non-store-based channels include the official websites, e-commerce platforms and more recently we can notice also the development of social e-commerce platforms. What emerges is that more and more consumers use online sites or platforms to obtain information about products, and then concretize the purchase in physical stores. The following graph shows that the 100% of consumers use online and offline sources as a means to gather information, but when we consider the purchase of the products, only the 8% choose to buy directly online<sup>38</sup>.

Figure 2.14: What Chinese consumers use online and offline source for



Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, *China Luxury Report*, 2019

<sup>35</sup> Platform sponsor, *Florentia Village celebrates first decade in China as it looks forward to more growth*, July 2021, available at: <https://www.mingtiandi.com/sponsored/florentia-village-celebrates-first-decade-in-china/>, last consultation 12.03.2022

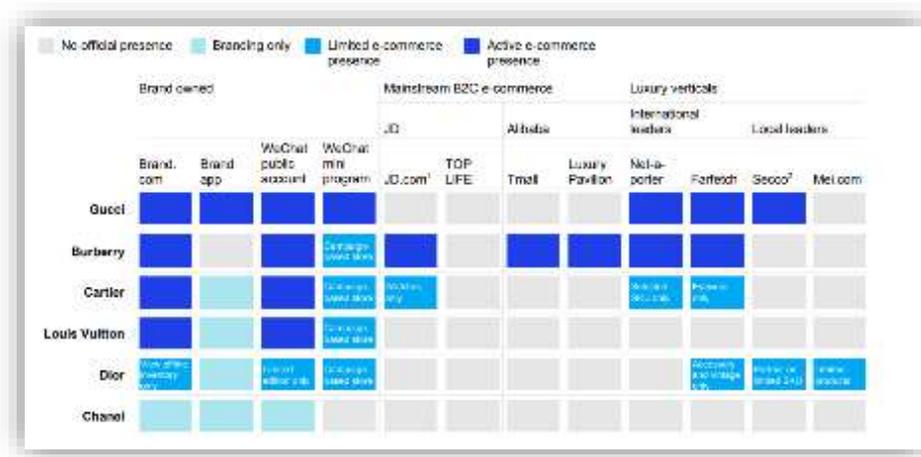
<sup>36</sup> Weizhuo Wu, *What Brands need to know about chinese airport travelers*, in *Jing Daily*, December 2019, available at: <https://jingdaily.com/luxury-brand-strategy-chinese-airport-travelers-louis-vuitton/>, last consultation 12.03.2022

<sup>37</sup> Kevin Rozario, *Eight Luxury Stores including Chanel and Gucci open at High-Traffic Chinese Airports*, in *Forbes*, November 2020, available at <https://www.forbes.com/sites/kevinrozario/2020/11/01/eight-luxury-stores-including-chanel-and-gucci-open-at-high-traffic-chinese-airports/?sh=17ce641d78a3>, last consultation 12.03.2022

<sup>38</sup> McKinsey Greater China's Apparel -Fashion and Luxury Group, *China Luxury Report*, 2019, cit.

Of course, the pandemic has reinforced the importance of digital channels and online stores have gained more and more popularity. What emerges from the data<sup>39</sup> is that most of the people get information about luxury products through official online brand channels or e-commerce platforms. Therefore, the online presence of luxury brands is necessary to succeed. In the following picture, we can notice how international brands are present in the non-store-based channels. Almost all the analysed brands have their own brand site and they also rely on WeChat, which is the well-known e-commerce platform; a few numbers of company are experimenting the social e-commerce platforms, such as Net-a-porter or Farfetch.

Figure 2.15: An analysis of the platforms used by international luxury companies



Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019

At this point, the question that we should try to answer at this point is *why chinese consumers still prefer going directly to the shop as to buy products*. One of the main reasons is precisely the possibility of living an experience: purchase is not only an end in itself but is a moment in which the consumer devotes himself to himself, giving shape to his desires. This experience can be fully experienced only in physical stores, where the presence of trained staff, but also the environment itself contribute to making it unique. In the following chart<sup>40</sup>, we can see that most Chinese consumers appreciate the possibility of having staff dedicated to him completely, assisting him in the purchase. The location itself becomes relevant to create the right atmosphere that allows relaxation (and also allows the consumer to forget the economic expense that they are going to make).

<sup>39</sup> McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019, cit.

<sup>40</sup> McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019, cit.

Figure 2.16: Reasons why Chinese consumers prefer to buy in stores



Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019

This is obviously not yet possible online, but the platforms are evolving faster and faster just to create a virtual reality as close as possible to the real one. McKinsey's data shows that what consumers would like on platforms is a more personalized service, with the possibility of having an online "guide", but also the ability to wear products virtually, which is just one of the challenges to be overcome to conquer the online market. One of the means through which brands can conquer the market is through celebrities and KOLs. KOL stands for Key Opinion Leader and can be described as an experienced person of a certain sector that people trust. The advertising that these people make in favour of a brand becomes strategic to attract new potential customers. Their "advice" is emulated by followers and, as a result, the good or bad publicity of a brand can increase or drastically decrease the company's revenue. The following picture shows the estimated number of follower of celebrities and KOLs and Weibo and WeChat:

Figure 2.17: The estimated number of followers on KOLs and Celebrities in China



Source: McKinsey Greater China's Apparel -Fashion and Luxury Group, China Luxury Report, 2019

Celebrities and KOL become a fundamental part of a new sales system, still experienced by a few brands: live streaming. In 2019, Little red book announced the addition of a new feature to the platform, namely live streaming. Louis Vuitton was one of the first international brands to "launch" in this new world: in fact, on March 26, 2020, the brand aired its first direct, introduced by fashion blogger Yvonne Ching. During the one-hour live, celebrity Zhong Chuxi also appeared, wearing, and showing the Vuitton summer collection. There were also real-time answers to fan questions. The result was 152,000 views and a large number of comments. This allowed us to understand that the combination livestreaming and celebrity works a lot: in fact, fans can comment live, can see the garments worn, can perceive the quality of the product. In addition, you could even reserve the live streaming to a specific category of users (especially for VIP users) in order to entice more and more consumers to subscribe to the platform, in exchange for an exclusive service.

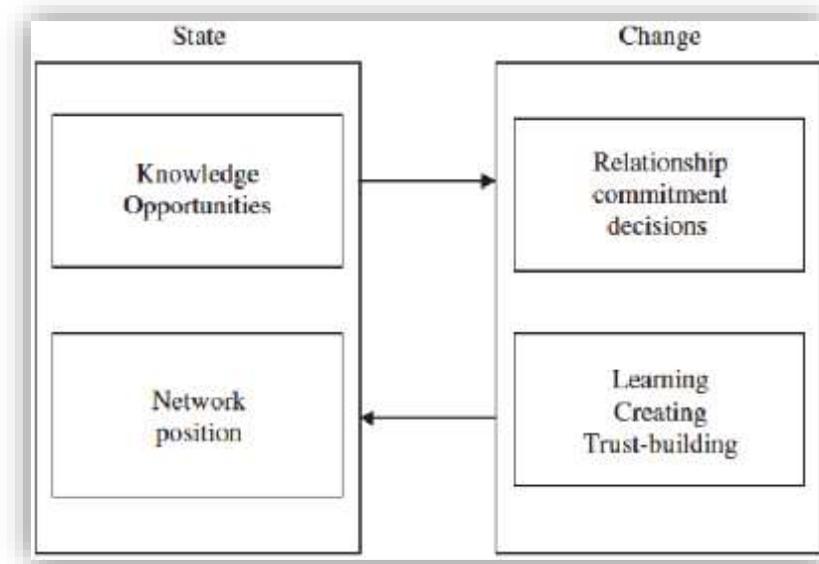
To conclude, we can say that the experience in the physical store is still crucial for consumers, but the online world is becoming increasingly important. Companies must therefore pay attention to both. It is not enough to have beautiful stores just as it is not enough to be present online: only the combination of the two factors can determine the success of a brand.

#### *2.4 Imperative challenges for luxury brands: how to win in the Chinese luxury market*

To succeed in the luxury goods market in China, the first fundamental step for companies is to understand how to adapt their strategy. What is clear is that the simple replication of the strategy used in the mother country applied in a country as different as China, is not enough. The first step is to understand how to enter the market and how to be present in the market. In other words, it is not enough to define a clear entry strategy, but it is also necessary to establish how and how much the company intends to be present in the future within the country. One of the theories that best explains the internationalization process is the Uppsala Model, developed by scholars of the Uppsala University. According to this theory, the internationalization process is affected by behavioural influence of people involved in this process. As a consequence, a company should enter into a foreign market with a gradual approach. What drives this gradual approach is that company knows that when operating in foreign countries, they operate under a liability of foreignness: foreign companies are less ready than domestic companies to face the challenges arising from the market and so they are disadvantaged because of their non-native status. As a consequence, the internationalization process can be described as a learning-oriented process: the firm gradually and incrementally develops its interdependence with foreign markets in order to accumulate knowledge of the foreign market and

incrementally perceived less risk. This process is based on step by step, and these steps depend on what the company experiences in the new market. The following figure represents the Uppsala model:

Figure 2.18: The Uppsala model



Source: John Dudovskiy, *Business research methodology*

Based on the above, it is therefore important that brands adopt a step-by-step process, with the aim of gradually gaining knowledge of the Chinese market. Generally speaking, luxury brand approach to the Chinese market includes the following patterns<sup>41</sup>:

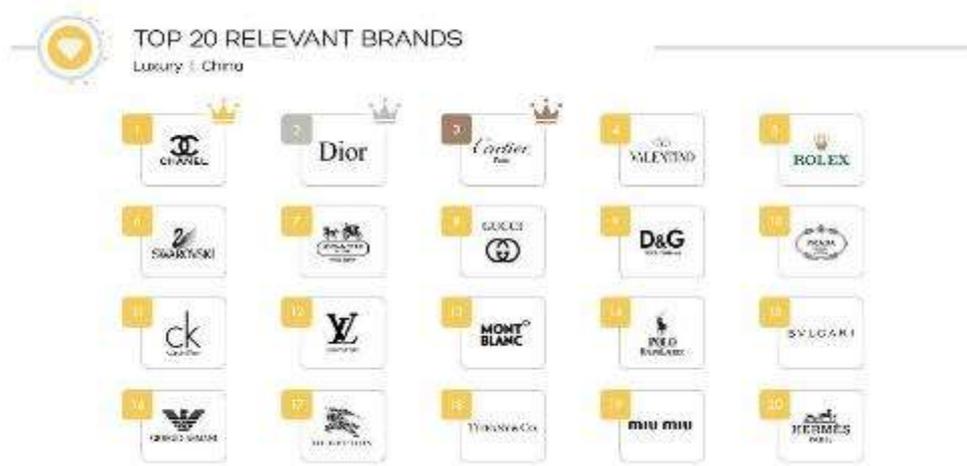
- 1) Creation of fashionable boutiques
- 2) Training of a highly specialized staff in the field that can guarantee the correct customer service
- 3) Advertising the brand, thanks to collaboration with local partners, such as celebrities or KOLs
- 4) Investing on the brand value and reputation
- 5) Developing strategies as to face the increasing competition

This approach is strictly related to some trends and unique characteristics of the Chinese market. These typical features of the Chinese luxury goods market comprehend, for example, the brand awareness, the different perception of luxury and beauty, the problem of counterfeit goods, the idea of shopping as an experience and a pleasure and finally the topic of shopping abroad. Considering the first point, as China is one of the most competitive markets in the world, it is extremely important

<sup>41</sup> Vogue business team, *Three key trends of China's young luxury consumers*, in Vogue business, August 2020, available at <https://www.voguebusiness.com/consumers/three-key-trends-of-chinas-young-luxury-consumers>, last consultation 13.03.2022

to develop a positive and recognized image of one's own brand. To do this, it is necessary to stand out from the crowd, proposing a portfolio of products original and different from the competition. Here we have the top 20 relevant brands in China in the luxury market, according to a report of Luxury Society of 2017:

Figure 2.19: Top 20 relevant luxury brands in China

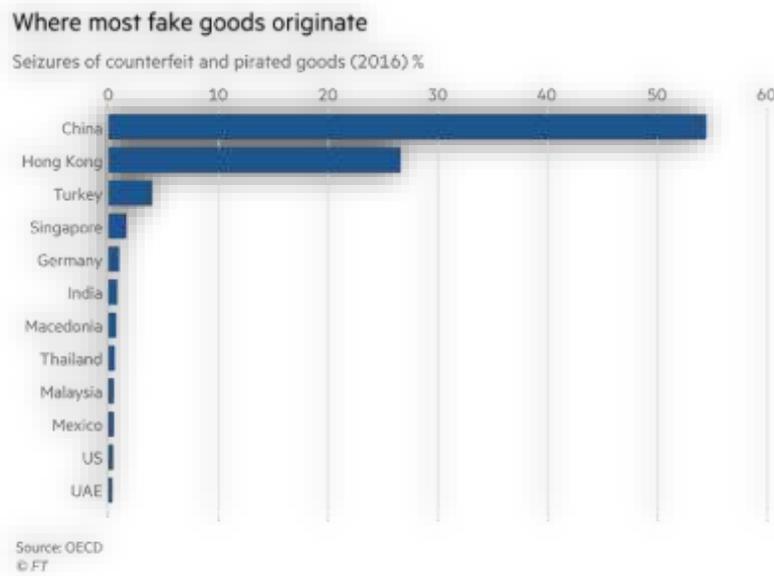


Source: Luxury Society report, 2017

This feature is strictly related to the different perception of luxury and beauty: indeed, the perception of the concept of beauty in China is completely different from that of Western countries. In Western countries, being beautiful - or better said - becoming beautiful through a kind of transformation is a way to acquire more security and not be afraid of showing themselves in society. In China, however, everything that contributes to personal beauty is seen as something more intimate. Everything that exalts beauty in an excessive way is not appreciated. Conversely, if the exaltation of beauty starts from the most hidden and inner dimension, then it will be appreciated. This is one of the reasons why in the advertising of luxury products in China are used Chinese models, which best represent this ideal of intimate beauty. Speaking now of the problem of counterfeiting, China being the largest ecommerce market in the world in economic terms, we should not be surprised that it is also the largest market in the world in terms of counterfeiting<sup>42</sup>. According to data coming from the Global Brand Counterfeiting Report of 2018, the counterfeiting market counted for \$323 billion in 2017. In detail, the losses that luxury brands have suffered due to the counterfeiting market in 2017 amounted to \$30.3 billion. The following graphic make a comparison between Chinese counterfeiting market and other countries in the World:

<sup>42</sup> Casey Hall, *A turning point for China's stance on Counterfeit Luxury goods*, in Business of fashion, December 2018, available at <https://www.businessoffashion.com/articles/luxury/a-turning-point-for-chinas-stance-on-counterfeit-luxury-goods/>, last consultation 13.03.2022

Figure 2.20: Chinese counterfeiting market in comparison with other markets



Source: Global brand counterfeiting report, OECD (Organisation for Economic Co-operation and Development), 2018

Consumers who buy counterfeit products fall into two categories: those who are not aware of the fake product and those who are aware of it. Among those who are aware of it, we can find all those people who cannot afford economically to buy original luxury products and therefore fall back on fake products, so as to enhance their status and be recognized. The reason for the purchase therefore lies in the desire to emulate the Chinese upper class.<sup>43</sup> In most cases, counterfeit products are purchased both in physical stores and via online platforms. Generally speaking, ecommerce sites are the main sales channel of fake products. The Chinese government is trying to combat this phenomenon, but companies believe that the sanctions are too light. In recent years, starting in August 2018, new, more stringent measures have been adopted against online ecommerce platforms that fail to guarantee the authenticity of the products they sell or do not actively cooperate with the authorities in the fight against counterfeiting. One example is Alibaba. The largest Chinese ecommerce platforms has been accused by the Chinese government of proposing the sale of counterfeit goods, with more than 240.000 sellers. Just to stop this phenomenon more and more out of control, Alibaba decided to intervene drastically with a control system that led to the decrease of 95% of counterfeit goods on the portal. It is therefore important to understand how companies can defend themselves against counterfeiting. The strategy that the brand decides to follow must of course be based on the target of reference consumers and the portfolio of products. There are two main strategies used by luxury brands: the first is based on ethical emphasis, while the second focuses on the psychosocial

<sup>43</sup> Daxue Consulting, *Behind the industry of counterfeit products in China and lawsuit success cases*, July 2021, available at <https://daxueconsulting.com/counterfeit-products-in-china/>, last consultation 13.03.2022

component. The ethical strategy is used by companies to make consumers understand that behind the production of fake products often lies the exploitation of people, very often children, forced to live and work in inhumane conditions. Buying counterfeit goods therefore means contributing directly to the exploitation of these people. A second approach, on the other hand, is the one based on the purely social aspect: companies carry out campaigns based on the concept of shame. Buying a counterfeit good is a symbol of false behaviour, which differs considerably from the concepts of truth and moral integrity coming from Chinese Confucian culture. Another key feature of the luxury market in China is the shopping experience. As pointed out above, shopping is not just seen as a simple shopping activity but it represents a real experience. It becomes therefore important to offer a service that is created specifically for the customer, considering the different targets of consumers, and paying attention to the different requests. Obviously, the demands of traditional consumers and those of Generation Z are completely different and, therefore, the service offered must adapt accordingly. As a consequence, brands must develop a strategy to seduce consumers, starting from their distinctive characteristics. For example, to win the Z generation, it is necessary to make optimal use of digital platforms, through sponsorships with celebrities (especially K-drama actors or K-pop singers) popular among young people. The last characteristic of luxury in China is the tendency to buy prestigious goods abroad, tendentially for two reasons. The first is precisely to combat counterfeiting: by going directly to European boutiques, Chinese consumers are certain that what they buy is original. The second reason is obviously linked to the Chinese tax system, whereby luxury goods carry state-imposed excise duties. Because of this, the price of these products in China tends to be 30% higher than abroad. In the following figure<sup>44</sup>, there is a comparison between prices in China and in US:

Figure 2.21: A comparison between prices of luxury products in China and in US



Source: Coco Feng, *Luxury brands slash price tags in China*, Caixin, July 2018

<sup>44</sup>Coco Feng, *Luxury brands slash price tags in China*, in Caixin, July 2018, available at <https://www.caixinglobal.com/2018-07-17/luxury-brands-slash-price-tags-in-china-101305808.html>

At this point in the discussion, a very simple question arises: "*What is the key to success in such a competitive market?*" Obviously, it is difficult to find a unique and unequivocal answer, but certainly the digitalization of brands and their presence in the online market is now essential.<sup>45</sup>

Considering that on average Chinese consumers spend 6 hours every day on the phone and use it for anything (searching for information, making purchases, and even directly paying), companies must guarantee their space in the online world. Through the use of platforms, you can build or strengthen your reputation, working on the creation of an online community and, above all, ensuring the active presence of the brand through Q&A sessions. According to the joint report by Boston Consulting Group and Tmall, released in 2021, there are 3 key elements that companies need to consider in developing their online strategy:

- 1) An online Customer-centric approach
- 2) Differentiation of the consumer operation
- 3) Cross-functional collaboration

With the concept of a customer-focused presence, we refer to the development of platforms dedicated to the various target audience: it is therefore important to develop a positioning strategy also for online platforms. Concretely, brands can focus on creating cross-selling opportunities, that is, the possibility for consumers to quickly switch from one product to another, but also from one site to another. The second idea refers to the focusing on consumer operation instead of traffic: it is more important to focus and optimize the product strategy or marketing strategy than to focus on user traffic. In other words, the company should not be obsessed with the control of numerical data but should pay more attention to the needs of the consumer. The brand must understand how to communicate correctly with clients in a clear and sincere manner. The third element is cross-functional collaboration, which is necessary with the intention of winning the competition. Companies can create omni-channel plans and even cross-functional collaborations. Through these collaborations, they can therefore ensure faster and faster work to respond to continuous market demands.

The authors of the report above-mentioned believe that "*The shift from traffic and products to consumer-centric e-commerce operations has triggered fundamental disruptions and continuous changes in the e-commerce space. To adapt to the ever-evolving market, brands should embrace new trends and disruptions, reset and adjust themselves, clarify their strategic directions and goals,*

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<sup>45</sup> Bruno Lannes, *What's powering China's market for luxury goods?*, in Bain & Company, March 2019, available at <https://www.bain.com/insights/whats-powering-chinas-market-for-luxury-goods/#:~:text=The%20Chinese%20government's%20reduction%20in,such%20as%20Hong%20Kong%2C%20Seoul%2C>, last consultation 14.03.2022

determine and deepen insights on target consumer segments, boost cross-functional interactions and collaborations within the organization and build capabilities to connect the right products to high potential consumers under appropriate scenarios through optimal channels with best-fit content and massaging.” The following picture<sup>46</sup> represents the top 15 best luxury brands online in China in 2021:

Figure 2.22: The top 15 best luxury brands online in China

Rank	Brand	Share of Search Interest	Website Traffic	Social Media Audience	Social Media Engagement
1	Gucci	15.2%	9.2M	70.5M	14.2%
2	Chanel	11.6%	8.6M	81.4M	8.6%
3	Hermès	10.2%	4.4M	14.3M	3.1%
4	Dior	10.0%	8.6M	62.3M	21.2%
5	Louis Vuitton	9.7%	13.5M	75.6M	14.5%
6	Rolex	6.7%	4.3M	20.4M	5.0%
7	Tiffany	6.2%	3.5M	24.0M	8.8%
8	Prada	4.7%	3.2M	34.9M	7.5%
9	Versace	4.6%	2.6M	34.5M	25.8%
10	Armani	4.3%	2.0M	30.5M	5.4%
11	Valentino	4.0%	923K	19.8M	10.5%
12	Balenciaga	3.7%	1.6M	14.5M	3.4%
13	Cartier	3.4%	2.0M	15.9M	3.0%
14	Burberry	3.4%	3.0M	44.2M	3.1%
15	Omega	2.4%	1.5M	5.1M	4.4%

Source: Florine Eppe Beauloye, *The 15 most popular luxury brands online in 2021*, Luxe Digital, October 2021

### 2.5 Chinese consumers' luxury value perceptions

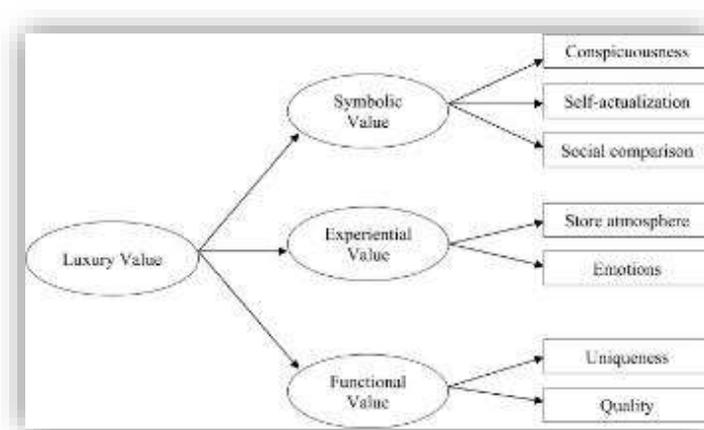
Let's talk about the value that Chinese consumers attribute to luxury goods. When we use the term customer-value, we refer not only to the perceived utility, but to the comparison between the value of the goods and the price that consumers are willing to pay.<sup>47</sup> There is no unambiguous definition of what is meant by the above term, but researchers argue that it is a multi-dimensional concept and therefore is influenced by multiple factors. Let's consider for example the definition created by Park et al in 1986: according to his idea, the value of an asset is determined by 3 components, namely the functional component, the symbolic component, and the experimental component. Turning now to the concept of value associated with luxury goods, it is important to remember that defining what includes luxury is rather difficult and very subjective. Many scholars including Campbell argue that there are two concepts behind the value of luxury: the context and the people involved. There are

<sup>46</sup> Florine Eppe Beauloye, *The 15 most popular luxury brands online in 2021*, in Luxe Digital, October 2021, available at <https://luxe.digital/business/digital-luxury-ranking/most-popular-luxury-brands/>

<sup>47</sup> Paurav Shukla, Keyoo Purani, *Comparing the importance of luxury value perceptions in cross-national contexts*, in Journal of Business Research, 2011

many factors that can help determine what constitutes the value of a luxury asset and the debate among scholars has been going on for many years. Beginning in 1999, Vigneron and Johnson developed a theory based on 5 fundamental components, which could influence the perception of the value of Chinese consumers' luxury goods, namely conspicuous value, unique value, social value, emotional value, and quality value. It is clear how these elements affect the perception of the value of a product, being elements that the buyer tends to evaluate before making a purchase, whether it is a luxury good or any other good. I will now try to give a definition of the terms mentioned above, including examples. The uniqueness of a product contributes to give value to the same as owning it becomes an exclusive. The less a product is available, the greater its value. Just think of the so-called "limit edition": very often consumers are willing to stay connected for hours to book them or are willing to stand in queues for hours outside the stores to have the opportunity to make the purchase. The conspicuous value is instead linked to the value of the brand itself, or rather, to the identity that the brand transfers to the consumer. Wearing a luxury product of a certain brand helps to communicate a certain image to people. Emotional value is concretely about what the consumer feels emotionally about buying a particular product. For example, it can be linked to the sense of sacrifice that the consumer had to endure to afford to buy such a product. Or he/she can remember a moment of pleasure when the buyer decided to "take care of himself/herself", buying something he/she particularly wanted. The last component is related to quality. In this case, the quality of the product and its value are directly proportional: the higher the quality, the higher the value perceived by the consumer. Higher quality also becomes justification for a higher price: the consumer perceives high quality, increases his conception of value and is therefore willing to pay more. In the following scheme, we can see 3 different perceptions of the value, that are determined by the previous components:

Figure 2.24: The three different perceptions of the value



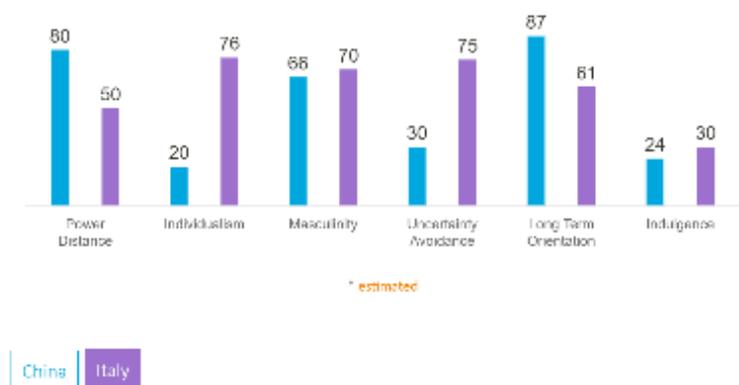
In general, we can identify 3 main approaches to buying a luxury asset: the first is based on the symbolic value of the luxury good, the second on the value of the purchase experience and the last is based on the utility and functionality of the asset. The consumer who recognizes the symbolic value will decide to buy the product driven by a sense of personal satisfaction or driven by the desire to obtain social consensus. The second category of consumers instead evaluates the shopping experience and not so much the object that they will buy: it will therefore focus on the environment and the emotions that one will feel at the moment of shopping. Finally, the consumer can decide to buy a product recognising its functionality. In this case, being a luxury product, the consumer will evaluate the uniqueness of the product and the quality. The higher the value of these two elements, the more money the consumer is willing to spend. What is important to note is that the perception of value changes from consumer to consumer. Therefore, it is impossible to develop a single and universal strategy. Luxury brands should try to guarantee their consumers all the fundamental components mentioned above, with the purpose of fully satisfying the perception of value. What is becoming increasingly noticeable is that the uniqueness of the product and especially the sophistication are becoming increasingly important among Chinese consumers. If the older generation was more attentive to the symbolic value of the purchased product, Generation Z tends to attribute more value to both the experience and the functionality of the product. Once again, brands must develop the right strategy both to maintain their "historical" customers and to attract new young consumers. The other element that should not be forgotten is that the perception of the value of consumers changes from country to country and is strongly influenced by culture. Let us remember that China has a culture that strongly differs from European countries. To help us make this comparison, we can use the six dimensions identified by Hofstede:

- 1) *Power distance*, which can be defined as the acceptance of distinctions (such as boss and employee distinction or man and women distinction)
- 2) *Individualism*, which refers to the attitude of people that can prefer to work alone or in groups. In other words, it is related to the level of the social or of the community integration
- 3) *Masculinity*, which is not related to the fact that the predominant gender is the male one, but it is related to how much masculine traits like authority or assertiveness.
- 4) *Uncertainty avoidance*, which refers to the tendency to avoid uncertainty situations.
- 5) *Long-term orientated*, strictly related to the time-orientation and, and on the opposite side the short-term orientation

6) *Indulgence*, defined as the extent to which people try to control their desires and impulses.

Making a comparison between China and Italy, the biggest difference lies in the individualism dimension. Italy is a country where the level of individualism is very high (76%), while China is a more collectivistic country and this derives from the Chinese Confucian culture. The other important difference concerns the tendency to avoid unknown situations: this also explains the attitude of Chinese consumers (especially Generation Z) to be always ready to experiment with new brands, that's why they're attracted to what's new and different all the time. Italian consumers, on the other hand, are much more tied to traditions and struggle to leave what represents for them a certainty, something that has now become almost habitual. In the following picture<sup>48</sup> we can see the comparison between China and Italy:

Figure 2.23: Country comparison between Italy and China, based on Hofstede's six dimensions



Source: country comparison, Hofstede Insights, available at <https://www.hofstede-insights.com/country-comparison/china,italy,spain/>

In the perception of value, there are therefore many factors that luxury brands must consider: not only the quality, uniqueness, the experience of buying, but also the way culture influenced how the value of a luxury good is perceived.

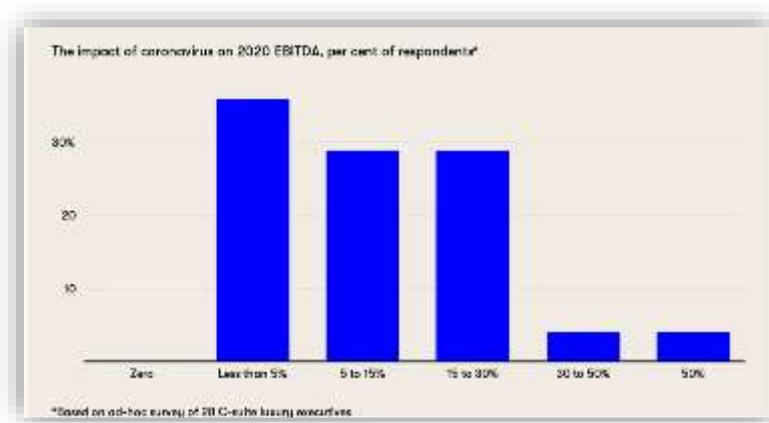
## 2.6 The impact of Covid-19 on the Chinese luxury goods market: speeding up the digitalization

We cannot make an analysis of the luxury goods market in China without considering the impact that Covid-19 had and still has on it. All brands had to face a tough challenge, never seen before: consumers could no longer physically go to boutiques or to the shopping malls and therefore it became

<sup>48</sup> Country comparison available at <https://www.hofstede-insights.com/country-comparison/china,italy/>

essential to reach them by alternative means. This is because, if consumers belonging to the younger generations were already accustomed to using ecommerce platforms to buy luxury goods, the older generation used to see and "touch" the products before concluding the purchase. As a result, the real challenge for companies has been both to increase the number of online consumers and to make their platforms more performing<sup>49</sup>. Considering the data obtained from a survey by Altagamma in collaboration with BCG, a loss of about 10 billion euros in 2020 was assumed. The chart<sup>50</sup> below shows the decrease in EBITDA<sup>51</sup> of leading luxury brands in China since 2020:

Figure 2.24: The impact of Covid-19 on the EBITDA of Luxury brands



Source: BCG & Altagamma survey, 2020

In practice, the impact of the pandemic has been extremely significant, especially for physical stores. For example, Burberry in China had to close 24 out of 64 stores. Another example is Ralph Lauren, who was forced to close two thirds of his stores.<sup>52</sup>

<sup>49</sup> Cyril Ip, *China's luxury goods market: how big it is, and what impact has the coronavirus pandemic had?* – in Scmp, 6 November 2021, available at <https://www.scmp.com/economy/china-economy/article/3154985/chinas-luxury-goods-market-how-big-it-and-what-impact-has>, last consultation 09.03.2022

<sup>50</sup> BCG & Altagamma survey, 2020

<sup>51</sup> Earnings before interest, taxes, depreciation, and amortization.

<sup>52</sup> Annachiara Biondi, *Coronavirus could cause €40 billion decline in luxury sales in 2020*, in Vogue business, February 2020, available at <https://www.voguebusiness.com/companies/coronavirus-luxury-brands-impact-sales-htagamma>, last consultation 19.03.2022

Figure 2.25: Impact of Coronavirus on Chinese Luxury operations

Impact of Coronavirus on Chinese luxury operations (as of 21 Feb 2020)	
Premium brand / Group	Status of stores
Ralph Lauren	Two-third of the stores are closed
Burberry	24 stores out of 64 are closed
Capri (brands include Michael Kors and Jimmy Choo, etc.)	150 stores out of 225 are closed
Tapestry (brands include Coach and Kate Spade, etc.)	Most of the stores are closed

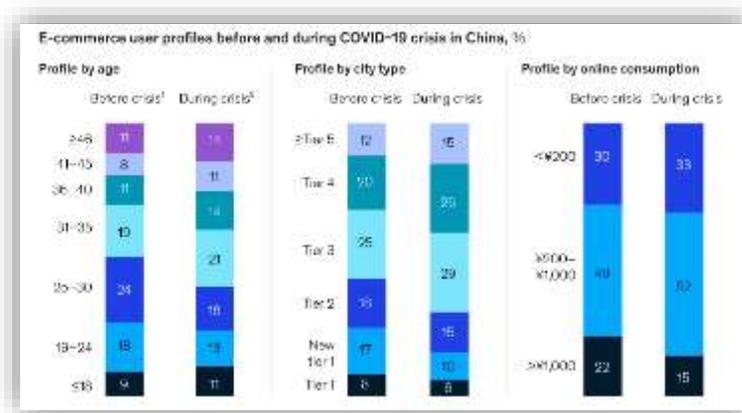
Source: Global luxury felling the chills of the Coronavirus, Sia Partners, February 2020

The positive news is that, after this initial phase of loss, brands have started to find alternative strategies to recover and profits have returned to increase. The most functional strategy has been adopted by companies that have seen the pandemic as an opportunity to digitize themselves more and more. Such an important event obviously brings with it changes, unexpected, but lasting in the long term. Let’s now see what changes luxury companies have had to face such that they can survive in the Chinese market.

1. Develop a strategy that puts digital development at the centre

As we have already mentioned, the biggest change has been precisely the acceleration of the digitisation process. The following graph<sup>53</sup> shows the main changes of online users:

Figure 2.26: E-commerce users’ profile before and after Covid-19 in China



Source: McKinsey Greater China’s Apparel -Fashion and Luxury Group, China Luxury Report, 2020

Considering the age groups, we can see an increase in consumers from the 31-35 age group: this means that older generations have begun to explore the online world, unable to physically visit

<sup>53</sup> McKinsey Greater China’s Apparel -Fashion and Luxury Group, China Luxury Report, 2020

physical boutiques. As for cities, digitalization seems to have arrived increasingly in Tier 3 and Tier 4 cities. What companies have tried to do is bring the boutiques inside the homes of consumers, especially through live-streaming or increasingly through celebrities and KOLs. For example, brands like Dior and Gucci have introduced services like virtual shopping with friends or the ability to virtually try on clothes. Data coming from BCG and Altagamma shows that China is the country with the higher level of virtual livestreaming, compared with US and Europe. According to a survey that they conducted, the 43% of Chinese consumers answered saying that they are used to buy luxury goods during or immediately after a livestream session.

### 2. Strengthening of local production

The closing period increased the feeling of nationalism and national pride of people in the same closed state. In addition to this, due to restrictions, Chinese consumers have had to abandon their habit of buying products while traveling abroad. According to a survey done by state newspaper *China Youth Daily*, the 96% of Chinese consumers are now interested in trying luxury products produced in China. For instance, Chinese brands such as Anta or Li Ning are becoming very popular between consumers as a response to their nationalism and patriotic feeling.

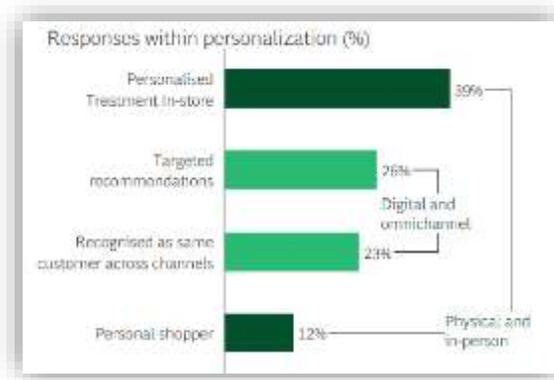
### 3. Supply Chain transformation

According to what is reported in the report of Sia partners, in the future, luxury companies will increasingly use the data obtained from the platforms to optimize their assembly line, trying to make predictions for the proper management of inventories. In other words, using smart inventory management to lower the supply chain costs. In addition to this, brand should also gain in-depth understanding of each category of consumers in order to create specific campaigns for them as to increase the level of connection. This means that companies have to develop an increasingly personalized service. According to BCG & Altagamma report<sup>54</sup>, “*a greater demand exists for personalization of the services, through both digital and physical avenues*”:

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<sup>54</sup> BCG & Altagamma survey, 2020

Figure 2.27: How much personalization is relevant



Source: BCG & Altagamma survey, 2020

To conclude, in the luxury sector, a strategy that can adapt quickly to changes, as to respond to the continuous demands of customers, in terms of sustainability, digitalization and customization of services has always been needed. The pandemic has accelerated even more the continuous changes and the need to find the assembly line, aiming to ensure success both in the short term and in the long term. Finally, as to survive in the post covid period, it is increasingly important to develop an omnichannel strategy, combining both physical and online presence. The idea is that post covid recovery is possible and that in addition it could lead to an improvement for some brands. Indeed, those who can understand what strategy to use to cope with these changes, will be able to increase the pool of potential consumers. According to Bain & Company research of March 2020<sup>55</sup>, *“Luxury’s global reach should become a strength once more when the current situation has stabilized. Brands can even emerge from the crisis stronger. Lessons in resilience learned in the dark days of 2020 can power a sustainable recovery in 2021 and beyond. This crisis may be transforming the luxury industry for good, but it could also be a transformation for the good.”*

<sup>55</sup> Bain & Company, Inc. and Tmall Luxury Division, China’s Unstoppable 2020 Luxury Market, 2020

## ***Luxury bags: a comparison about the e-commerce strategies of companies operating in the fashion industry in the Chinese Market***

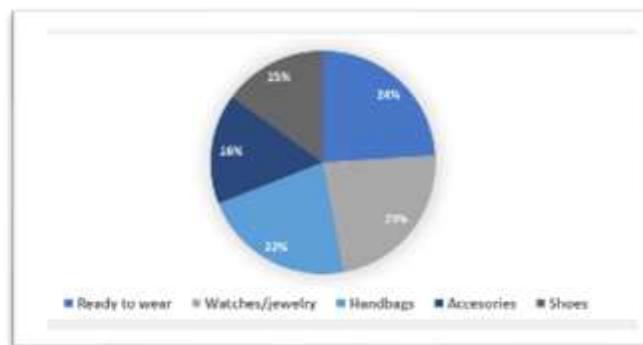
In this last chapter, I will first analyse the Chinese luxury bags market and, later, a comparison will be made between the e-commerce strategies used by international companies. In particular, the brands that will be studied include Chanel, Louis Vuitton, Hermès, Burberry Givenchy, Dior and Gucci. I will try to divide the aforementioned brands into 3 macro groups:

- 1) Those that are most present in Chinese e-commerce.
- 2) Those who are increasingly approaching Chinese e-commerce, but who are still in an embryonic form.
- 3) Those who have not yet developed a clear approach and strategy to the Chinese e-commerce.

### ***3.1 Luxury bags: top e-commerce marketing strategies and trends in China***

After analysing the luxury goods market in China, focusing on the fashion sector, we have now to focus on the subject of study of this thesis, i.e., luxury handbags. According to data reported in McKinsey's analysis of 2021<sup>56</sup>, the market value of luxury handbags increased and reached 8 billion USD in 2021. In detail, the growth rate of the sector is expected to remain stable at around 7% per year. What clearly emerges is that the sector is constantly growing and is attracting more and more consumers, especially of the Generation Z. The following chart<sup>57</sup> illustrates the segmentation of the Chinese luxury market and shows that the market of luxury bags occupies a good percentage, which is 22%.

Figure 3.1: The segmentation of the Chinese luxury market



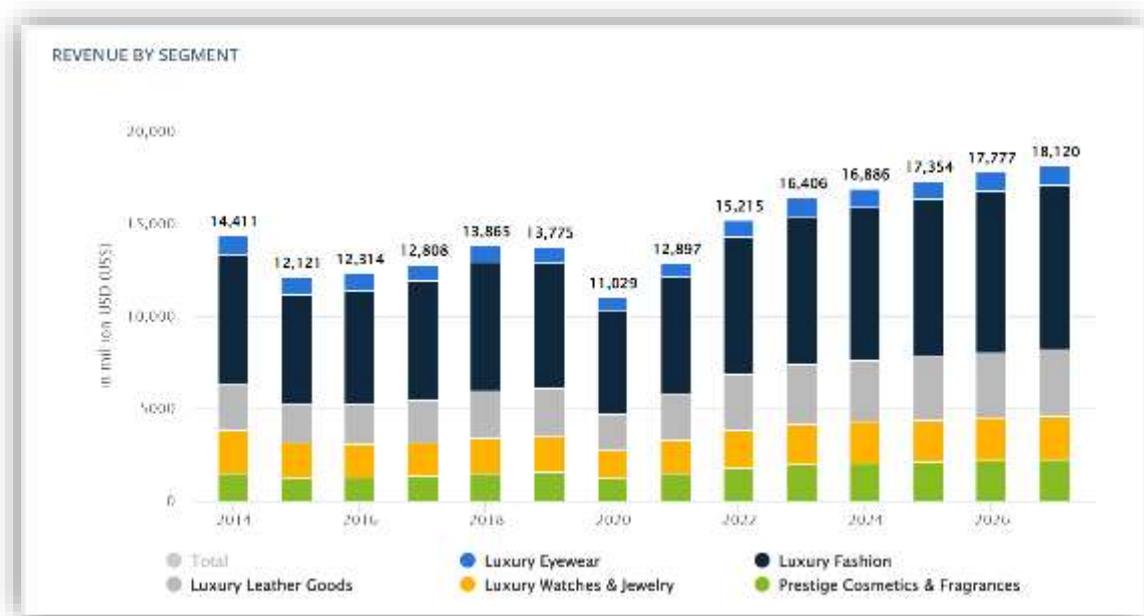
Source: Daxue Consulting, *How the Chinese luxury market poised to become the largest in the world, 2020*

<sup>56</sup> McKinsey Greater China's Apparel - Fashion and Luxury Group, *China Luxury Report, 2021*

<sup>57</sup> Daxue Consulting, *How the Chinese luxury market poised to become the largest in the world, 2020*, available at <https://daxueconsulting.com/chinese-luxury-market/>, last consultation 2 April 2022

This demonstrates that the market for luxury bags is not a niche market, on the contrary it is a fast-growing market in China, in which it is worth investing. To better understand what has just been said, just make a comparison with the data<sup>58</sup> related to the Italian market.

Figure 3.2: The segmentation of the Italian luxury market



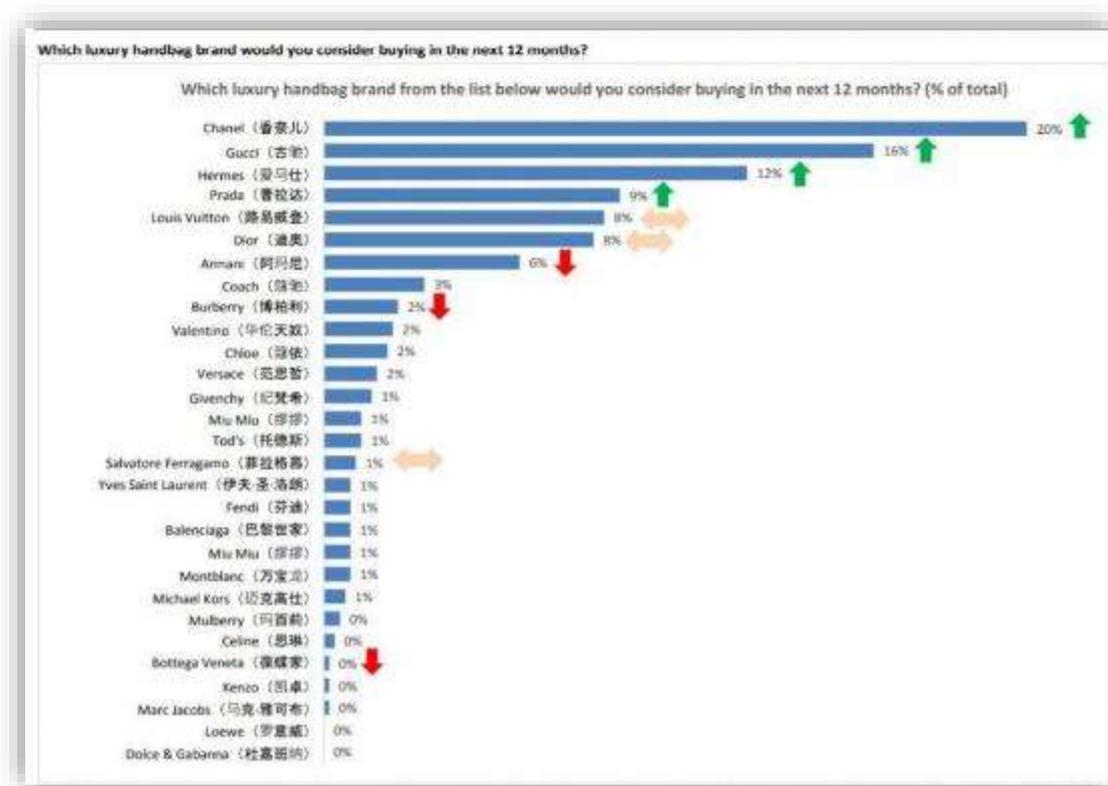
Source: Statista 2022

In Italy, most of the revenues in the luxury goods market (according to the latest data published in 2022 by Statista), the fashion sector – intended as clothing – is the driving one. Luxury bags still occupy a small percentage and the growth rate for the future appears to be stable, but very limited (around 1.13%). This means that the market is almost mature and has already reached its maximum level. This is perhaps why major international brands are increasingly investing in the Chinese market. Speaking now of the most important brands in China in the luxury bags sector, a survey carried out by the international investment bank RBC Europe in 2018 showed that Chinese consumers prefer Chanel (+20% compared to 2017) and Gucci (+16% compared to 2017), followed by Hermès (+12%) and Prada (+9%). Compared to the previous year, Armani lost 6%. The survey<sup>59</sup> was carried out thanks to an interview with 643 Chinese consumers who said they had made at least one purchase of products of these brands in the last year.

<sup>58</sup> Statista, 2022

<sup>59</sup> Survey Monkey, RBC Capital Markets, 2018

Figure 3.3: Chinese favourites luxury handbags brands



Source: Survey Monkey, RBC Capital Markets, 2018

After briefly having analysed the numerical data of the luxury bags sector, it is important to investigate what are the most important trends that brands should pay particular attention to. As we know, there is no single 100% effective strategy to win in the Chinese luxury market, but there are key elements that cannot be forgotten by international companies. Paying attention to fashions and trends has become even more crucial as the level of competitiveness becomes increasingly high. Considering the luxury bags sector, China is the country with the highest number of brands and, therefore, competitors. Consequently, an international company must be ready to face an extremely fierce competition.<sup>60</sup> Let's now analyse the main trends of this sector.

### 1. An increasingly young market

At the moment, 25% of consumers approaching the market of luxury bags have a common age between eighteen and twenty-four years, while 22% include the working class of women between twenty-five and thirty-two years. Therefore, about half of the market is occupied by consumers under

<sup>60</sup> GMA, *Luxury bags in China: 10 trends brands have to know*, in Fashion China Agency, January 2021, available at: <https://fashionchinaagency.com/luxury-bags-in-china-10-trends-brands-have-to-know/>, last consultation: 3 April 2022

thirty years of age.<sup>61</sup> As a result, the brand strategy must be geared to developing an appropriate approach to this age group, whose needs and demands are totally different from those of the older generations. Thus, it is very important to avoid the duplication of the strategy used in the mother country, as the target of reference changes considerably in China. For example, the Italian market is much older than the Chinese one (this is due in general also to the difference in the average age between the two countries, forty-six years in Italy against thirty-seven years in China); consequently, Italian luxury brands that decide to invest in the Chinese market must pay close attention to the adaptation of their strategy to ensure success.

## 2. Search for a sophisticated and inclusive design

Chinese consumers pay particular attention to the design of the product, researching uniqueness and particularity. In addition, young consumers of Generation Z are increasingly attracted to unisex products. This trend of inclusiveness stems both from a willingness to rebel against the system to emphasize gender equality and from a common fashion among young people to dress equal, especially within the couple. Some brands such as Louis Vuitton and Dior immediately paid attention to this particular need of Chinese consumers, launching some unisex collections (in particular, Saddle Bag for Dior and Soft Trunk Collection for Louis Vuitton) that have found wide consensus among young Chinese consumers.<sup>62</sup>

## 3. Pay attention to the translation of the names of the collections

Since Chinese language is very different from Western languages, pronouncing un-translated Chinese names of collections or individual products is extremely difficult for Chinese consumers. So as to use word of mouth as a means to increase their popularity, brands must choose Chinese nicknames to give to their products. Usually, the choice of names based on Chinese culture or that recall the design of the product turned out to be a winning strategy.

## 4. Avoid problems of misunderstandings

Dealing with a country that is very different from Western ones and particularly proud of its culture, brands must ensure that they avoid misunderstandings. Developing products or collections related to elements of traditional Chinese culture can be a winning solution, but it can also turn into a great

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<sup>61</sup> Thomson Reuters, *China's middle class stampede for luxury handbags*, in Fashion Network, 2022, available at <https://ww.fashionnetwork.com/news/China-s-middle-class-stampede-for-luxury-handbags,155544.html>, last consultation: 2 April 2022

<sup>62</sup> GMA, *China Luxury Market Guide, Marketing to China*, April 2021, available at <https://marketingtochina.com/china-luxury-marketguide/#:~:text=White%20in%20China.,Luxury%20Bags%20%26%20Leather%20Goods,and%20Dior%20for%20Chinese%20consumers>, last consultation: 2 April 2022

failure. Dior is an example of what has just been said. The French brand in 2018 has created a collection of personalized bags with the insertion of Chinese characters. The ultimate goal was to show interest for the Chinese culture and language, but the real result was a great failure. In fact, very often counterfeit products use incorrect or distorted translations of the original name of the product; as a result, products with Chinese writings did not represent the authenticity of the brand and were perceived as simple imitations. The lesson that can be learned is that attention to Chinese culture cannot be lacking.

#### 5. The extreme importance of artistic campaigns

In such a technologically advanced country, great attention must be paid to artistic campaigns to promote collections. In particular, online campaigns are essential for the success of the brand. Before approaching the Chinese market, it is necessary to understand how all the digital platforms that we talked about in the first chapter work because they are the main tool to capture the attention of consumers. For example, to launch the new Cleo bag from the spring-summer 2021 collection, Prada has developed a well-rounded promotional campaign, combining traditional media with more modern ones, such as KOLS. The specially designed hashtag reached more than eighty million consumers in a single day.

#### 6. Collecting: a growing phenomenon

Collecting has become an increasingly important phenomenon in China: the possibility of having unique pieces in their collection leads consumers to spend even crazy amounts. According to the Art Basel and UBS Global Art Market report of 2021, China accounted for 21% of the global art and uniqueness market in 2021. Collecting is not just about the Chinese elite: second-hand markets allow even the poorest consumers to buy unique products such as limited editions at a more affordable price.<sup>63</sup>

The real challenge of luxury brands becomes therefore being able to avoid repetitions and develop special and unique collaborations to produce collectible products. But, on the other hand, not all consumers are collectors: international companies must not propose only limited editions, otherwise they would lose much of their loyal consumers.<sup>64</sup> The right strategy turns out to be the union of basic collections, with some limited edition. These are the main trends that international brands must pay particular attention to. Obviously, these are constantly evolving and the speed of change is increasing

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<sup>63</sup> Glyn Atwal, *How Chinese Collector Drive Luxury Demand*, in Jing Daily, October 2021, available at <https://jingdaily.com/chinese-luxury-collectors-hermes-louis-vuitton/>, last consultation 5 April 2022

<sup>64</sup> GMA, *Sell bags in China via E-commerce is a great idea*, May 2017, available at <https://ecommercechinaagency.com/sell-bags-in-china-via-e-commerce-is-a-great-idea/>, last consultation 9 April 2022

as we live in a continuously more globalized world. Considering now the strategies used, one of the pivotal elements of the strategic choice is the price of the product itself. The prices of luxury bags range from 3,000 RMB (about 470 US dollars) to 15,000 RMB (about 2300 US dollars). According to a study conducted by the Re-hub group in July 2021<sup>65</sup>, it is possible to identify 5 different price segments, which are:

1. Premium segment – from 3,000 to 5,999 RMB
2. Entry-level Luxury segment – from 6,000 to 8,999 RMB
3. Mainstream Luxury segment– from 9,000 to 11,999 RMB
4. Aspirational Luxury segment – from 12,000 to 14,999 RMB
5. High-end Luxury segment – over 15,000 RMB

Figure 3.4: Price segments for luxury bags



Source: Max Peiro, Yoyo Liang, Thomas Piachaud, *The Rise of High-end Luxury e-commerce in China – an AI analysis of Luxury Handbags on Tmall, Re-Hub, July 2021*

The brands that decide to follow the first approach, choose to use a lower price to increase sales volumes. For this reason, they are ready to initially earn less with the hope of increasing more and more sales. Michael Kors and Coach have chosen this strategy to approach the Chinese market. The second strategy is to use a slightly higher price, ensuring a higher quality of the product. This segment is the most competitive and Gucci is the leader. In the third segment, prices rise more, but products have an even more refined style and design and brand logos are highlighted. In the penultimate segment, rising prices increase style, material and quality as sought after by consumers. These products are not used by consumers every day but are "special" products used on "special" occasions. Consequently, being comfortable is not a sought-after item and so the size of the product matters little. Finally, the high-end luxury category includes products that are considered perfect in

<sup>65</sup> Max Peiro, Yoyo Liang, Thomas Piachaud, *The Rise of High-end Luxury e-commerce in China – an AI analysis of Luxury Handbags on Tmall, in Re-Hub, July 2021*

all respects: material, quality, design, size, attention to detail, and authenticity. These are the products that everyone aspires to buy, as a symbol of total personal fulfilment and satisfaction. The main element to take and learn from this study is that the luxury handbags industry is extremely complex and varies by price segment. As more and more data are now available thanks to technological progress, it is good that a company before approaching the Chinese market, consider all the various strategic options to use and choose according to its objectives. Price, quality, image, design, and uniqueness should be considered as the main factors to be discussed. Obviously, it is not necessary to choose a single price strategy: brands like Gucci offer different products belonging to different price segments, in order to further expand the range of consumers.

### 3.2 How to sell luxury bags online: the phenomenon of Mr. Bags

As we pointed out earlier, being digital is an essential element for the success of a brand. As a result, selling bags online turned out to be an excellent strategy for luxury companies, especially in the lockdown period due to Covid-19. During an interview in January 2022, Pablo Mauron, managing director of the luxury group in China, said that only 8 years ago, the idea of selling luxury products online was not at all thinkable, because consumers were tied to the personalized service that they could live in the physical store, as well as the possibility of touching the product. The pandemic has certainly accelerated the digitalization process and luxury brands have had to develop a strategy to better combine online and offline.<sup>66</sup> In recent years the concept of IT-bag has even developed, thanks mainly to the contribution of the famous Mr. Bags. Building a digital stock exchange is a mix between marketing and design: what must be avoided is emulating the strategy used in other countries. In fact, many luxury brands encounter difficulties in attracting Chinese consumers precisely because they clash with completely different ideas and demands.<sup>67</sup> In an interview in 2017, Mr. Bags advised industry experts to develop an IT bag to better understand how to combine marketing and design. When we talk about marketing, we refer to everything related to the advertising strategy, the choice of name, the choice of platforms on which to propose the product, the choice of KOLs to collaborate with etc; The design instead refers to the construction of the product, the materials, the shape, the colours, and other elements. In this case as well, the needs of Chinese consumers differ significantly from those of other countries. *But who is behind Mr. Bags? Where does this character come from?* Mr. Bags is the stage name of Tao Liang, nowadays one of the most famous influencers in China, with more than 7 million followers on social media. The idea of creating a character like Mr. Bags was born in 2011, probably influenced by the international studies that Tao followed at the Columbia University in America.<sup>68</sup> The character of Mr. bags immediately stood out for its rankings, released every month, on the most beautiful and fashionable luxury bags. This is because, according to the vision of Tao Liang, people very often do not have time to devote to online research of different products to compare, and so a ready-ranking is a good starting point and a good support to make a choice.<sup>69</sup>

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<sup>66</sup> GMA, *Sell bags in China via E-commerce is a great idea*, May 2017, available at <https://ecommercechinaagency.com/sell-bags-in-china-via-e-commerce-is-a-great-idea/>, last consultation on 3 April 2022

<sup>67</sup> Ruonan Zheng, *How to build an "It" bag in China with Mr.Bags*, in Jing Daily, July 2020, available at <https://jingdaily.com/how-to-build-an-it-bag-in-china-with-mr-bags/>, last consultation 10 April 2022

<sup>68</sup> Carlotta Balena, *Mr. Bags, il blogger che ha venduto 500mila\$ di borse in 6 minuti*, in Fortune Italia, July 2018, available at <https://www.fortuneita.com/2018/07/18/mr-bags-il-blogger-che-ha-venduto-500mila-dlr-borse/>, last consultation 10 april 2022

<sup>69</sup> Legend, Mr. Bags: China's most influential fashion blogger, December 2017, available at <https://hashtaglegend.com/icons/mr-bags-china-fashion-influencer-interview/>, last consultation 10 April 2022

The ranking is made considering several factors:

- 1) A 30% is determined by how popular the bag is among fans
- 2) Another 30% considers the popularity of the object among celebrities in the world
- 3) An additional 30% is an indication of the appreciation of bloggers and influencers
- 4) The last 10% represents how trendy the bag is

Here we have the latest classification of the 30 most desirable designer handbags of March 2022, available on Instagram and WeChat:

Figure 3.5:Mr. Bags' latest ranking



Source: Mr. Bags official account on Instagram

Many have been the collaborations between the influencer and luxury brands: in 2017, for example, he collaborated with the French brand Givenchy for the launch of a unique collection for the Chinese Valentine's Day. The results are stunning and unprecedented: in less than 12 minutes, all of the 80 pieces in the collection were sold! During an interview in July 2020, he said: *"Luckily, the bag sold out within 12 minutes of going online, which brought a lot of hype and soon, hundreds were on the waiting list."* These products are not for everyone: in fact, the 80 pieces of the unique collection were only available to fans of Mr. Bags on WeChat and this creates a greater character of uniqueness. Another noteworthy collaboration was with the famous Italian brand Tod's that led to the promotion of particular bags that reproduced the appearance of a dog in 2018 (Year of the dog

in China). Again, we are talking about crazy numbers: in just 6 minutes, Mr. Bags managed to sell all 300 pieces available, with a gain of 500 thousand \$ (3,24 million renminbi). Getting a collaboration with Mr. Bags turns out to be an excellent marketing strategy that would surely lead to an increase in profits and significant reputation for the brand. Speaking about the Chinese digital world, Tao Liang stressed the difference between Western and Chinese platforms, remembering that the applications in China turn out to be super apps that combine different services together and that the content on WeChat does not match those of Instagram: WeChat looks more like a western blog and not just publish a photo, you need to write a fairly long article. He added that in Chinese Mainland the use of newspapers and magazines is now almost reduced to a minimum; but it is true that if a celebrity is present in famous magazines (for example, Vogue or Harper's Bazaar), then its notoriety on social will increase a lot.<sup>70</sup> As we said before, the purchase of a luxury product is not only an end in itself: behind the product, lies the experience as well as the sense of personal fulfilment and happiness. Mr. Bags has well understood how to ride this wave: in fact, he describes his blog as an experience, a path to happiness. In a speech of December 2017, he said: "*Yes. I think Mr. Bags is all about happiness. It's about being young and making dreams like true*". Being active on Weibo, WeChat and Little Red books, Tao Liang represents just a "medium" through which companies can make their way in the Chinese digital market, which appears - as we have emphasized - very different from the Western one.

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<sup>70</sup> GMA, *I marchi di lusso devono vendere sull'e-commerce in Cina*, March 2022, available at <https://italia.marketingtochina.com/i-marchi-di-lusso-devono-vendere-sulle-commerce-in-cina/>, last consultation 9 April 2022

### 3.3 A comparison about the e-commerce strategy between different brands

In this last chapter, we will analyse the strategies of some luxury brands on the principal e-commerce platforms in China for the sale of luxury bags. In particular, we will consider the following brands:

- 1) Chanel
- 2) Louis Vuitton
- 3) Hermès
- 4) Burberry
- 5) Givenchy
- 6) Dior
- 7) Gucci

Before doing this, it is necessary to consider five different possible strategies, generically used by luxury brands, in the approach to the Chinese digital market.<sup>71</sup> The following scheme, taken from the Chinese newspaper Jing Daily in a 2017 publication, summarizes the 5 main approaches we will now discuss. It should be noted that, following the pandemic, the situation has probably evolved for many brands and their approach may have changed.

Figure 3.6: The five main approaches used by International Luxury Brands in China

	Platform	Brands
<b>The Luddite Strategy</b>	No E-commerce website	 <b>CHANEL</b> <b>CÉLINE</b>
<b>The Go-it-alone Strategy</b>	Brand website store	<b>GUCCI</b> <b>PRADA</b> 
<b>The Snob Strategy</b>	Luxury online mall (Vip.com & Secoo, etc)	<b>TODS</b> <b>MARC JACOBS</b> <b>LOEWE</b> <b>SAINT LAURENT PARIS</b>
<b>The Populist Strategy</b>	Mainstream online mall (Tmall & JD.com, etc)	 <b>BURBERRY</b>  <b>GIORGIO ARMANI</b>
<b>The Chat Strategy</b>	WeChat store	<b>Dior</b> <b>Chloé</b> <b>GIVENCHY</b> 

Ruonan Zheng, *The 5 Diverging ways luxury brands approach E-commerce in China*, Jing Daily, December 2017, available at <https://jingdaily.com/luxury-e-commerce-china/>, last consultation 10 April 2022

<sup>71</sup> Ruonan Zheng, *The 5 Diverging ways luxury brands approach E-commerce in China*, in Jing Daily, December 2017, available at <https://jingdaily.com/luxury-e-commerce-china/>, last consultation 10 April 2022

The first strategy is the one used by some brands that are still reluctant to the Chinese digital world, such as Celine, Chanel and Patek Philippe. Their idea is that online selling cannot replace the experience and services offered in a physical store. As a result, the presence on Chinese platforms is zero and, only in exceptional cases, you can find the official website with the Chinese domain. The second strategy involves an active presence in the world of e-commerce, with brands that have developed their official website. Thanks to the latter, it is possible to conduct market analysis and consumer analysis based on the data collected, not in the public domain, but owned only by the brand. In a nutshell, brands have full control of their online sales channel. The next step is to unite the two worlds, online and offline. *How?* Providing the opportunity for consumers to live an integrated experience in the physical store and on the digital device. Brands such as Gucci, Prada and even Louis Vuitton belong to this category. In the third group, we find brands already more launched in the digital way, such as Tod's, Marc Jacobs, and Saint Laurent. These not only have developed their own official website in Chinese language but are also active on major luxury platforms such as Vip.com and Secoo. These platforms allow you to create a direct link between the post illustrating the product and the official website of the brand itself, as to complete the purchase with a single click. The fourth approach leads brands to be active on mainstream platforms, such as Tmall or Jd.com. In this case, these platforms allow them to have an increasingly active presence, also involving celebrities or KOLs for the promotion and advertising of their products. Burberry is one of the international companies that falls into this category. The latest strategic method is one that leads a company to explore and use all the digital media in the Chinese e-commerce market and, in particular, WeChat and Weibo. Brands such as Dior and Givenchy, are among the most active on the platforms, using devices such as limited sales, special promotions on special days (Valentine's Day for example) or pop-up sales. What changes between the previous two strategies (which already included digital elements) and the latter is the possibility of creating an even more intimate bond with consumers. In fact, WeChat allows you to create a direct link with the audience, transmitting an idea of transparency and trust. Obviously, these approaches and methodologies are not independent on from the others, indeed, they should be seen as a path that brands should follow to fit into Chinese e-commerce. Let's now analyse in detail the strategies used by the aforementioned brands, trying to create a comparison and a categorization of their approach to the Chinese digital world and trying to understand if the classification aforementioned has undergone changes, also due to the impact of the pandemic and so due to the need for brands to find alternative sales channels.

### *Chanel's strategy – an exception from the norm*

Chanel is a Parisian fashion house, founded at the beginning of the twentieth century, by Coco Chanel. To date, Chanel is one of the most famous brands in the world, focusing on the values of refinement, elegance, but also practicality and simplicity.<sup>72</sup> Considering now the sales strategy of luxury handbags in China, we can say that Chanel turns out to be a countertrend brand. Generally speaking, the brand only has its own website, app, and public account on WeChat. Even after the start of the pandemic, the French brand did not decide to change its strategy but maintained its decision to boost sales in physical stores. If for cosmetic or skincare products it is actually possible to shop on the official website, for bags and clothes the focus remains on the experience in the boutiques. Chanel's strategy focuses on the brand's reputation, brand knowledge and the desirability of the famous brand's luxury products. In an interview of October 2021 for Vogue Business, the president of Chanel fashion and Chanel SAS - Bruno Pavlovsky, stressed that in the vision and mission of the brand, the digital world is seen as an obstacle for the final consumer to live the experience of the purchase itself. In other words, selling on e-commerce platforms creates a deficit in consumer surplus.<sup>73</sup> The key is Chanel's attention to the services offered to consumers, services that cannot be offered via a screen. Let's now analyse in detail the presence of Chanel in the Chinese digital world. Starting from the official website, there is the Chinese language version, both traditional and simplified. What is surprising is this: starting from the international version of the website (chanel.com) you can select the area of interest (in this case Asia and then the language of interest (Chinese, Japanese, Vietnamese...). In doing so, you automatically go to [https://www.chanel.cn/zh\\_CN/](https://www.chanel.cn/zh_CN/), on which you can see the latest collections, videos of the latest fashion shows as well as consult the archived historical documents, dealing with the history of the brand, with the most famous collections, with the success and the failure. On the other hand, by typing directly Chanel.cn, the first page that is automatically proposed is linked to perfumes and beauty products, the only ones that can be purchased online. The website is not organized in a very functional way: in order to find the main menu, you have to scroll for a long time and, immediately below the menu is the section to find the nearest boutique. This makes you immediately understand the importance that is given to physical boutiques. The main menu is divided into categories such as high-level ready-to-wear clothes, handbags, jewellery, and accessories. In the bags section, there are only a series of photos that create a direct connection with the product. In the product sheet, it is

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<sup>72</sup> Lusso Mag Redazione, *Maison di lusso: la storia di Chanel*, January 2022, available at <https://www.lussomag.it/fashion/maison-chanel/>, last consultation 18 April 2022

<sup>73</sup> Nss Staff, *Why Chanel doesn't need an e-commerce*, February 2021, available at <https://www.nssmag.com/en/fashion/25317/chanel-e-commerce-pandemic>, last consultation 19 April 2022

only possible to have information about the product name, size, and price. You can save the product among your favourites, but you cannot complete the purchase: as a matter of fact, there is not a section "add to cart".

Here there is an example:



Source: official website of Chanel

Even in the world of collaborations, Chanel seems to show no interest in working with KOLs in China: the only "icon" that is idolized is that of the founder of the brand, Coco Chanel. Coco Chanel is thus stereotyped as the woman entrepreneur able to build her own future on her own. And this, considering the emerging female entrepreneurial class in China, turns out to be an excellent strategy. While the Chanel strategy strengthens the awareness of the brand and the strong attention to the customer, on the other hand the choice of not having e-commerce platforms is an obstacle for reaching consumers living in cities or in remote areas (for example in Tier 2 and Tier 3 Cities).<sup>74</sup> In doing so, the French brand relies only on people living in the most important cities (Tier 1 cities), but how long can it ignore all the others? The Chinese market is evolving more and more and, thanks to the five-year plans, the Chinese government is trying to focus on the development of even the most remote areas. When consumers in these areas turn out to be the new target audience in the future, if Chanel does

<sup>74</sup> Enzo Cacciotto, *Chanel in China: Digital strategy and standing up to counterfeiters*, in Daxue Consulting, April 2020, available at <https://daxueconsulting.com/analysis-on-chanel-in-china/>, last consultation 18 April 2022

not innovate its strategy, it will have difficulty in maintaining high sales levels.<sup>75</sup> We can define the brand strategy almost as based on the bare minimum: a website and an app are not enough to win in the Chinese market. Without advertising and collaboration, it will become increasingly difficult to attract the attention of younger consumers, accustomed to using online platforms for any purchase.

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<sup>75</sup> Gemma A. Williams, *Is Chanel's Offline strategy paying off in China?* in Jing Daily, November 2020, available at <https://jingdaily.com/china-chanel-e-commerce-karl-lagerfeld-virginie-viard-hermes/>, last consultation on 19 April 2022

*Louis Vuitton's strategy – a step-by-step strategy:*

The second international brand that we are going to analyse is Louis Vuitton. Founded in France in the second half of the nineteenth century (1854), the brand belongs to the LVMH group, a multinational and Parisian conglomerate. This brand, compared to the case of Chanel, is definitely more present in the Chinese digital market and is increasingly trying to take advantage of the new social channels for the sale of its products, in particular luxury bags. Specifically, it should be noted that most handbags have not changed much in their design: in this case, Louis Vuitton does not focus on the uniqueness of the product design (As do Dior or Gucci who always launch new collections) but focuses more on the international brand recognition.<sup>76</sup> Like Chanel, the most important element for the French brand is the recognition and awareness of the brand itself. Despite sharing this feature with Chanel, the digital strategy of Louis Vuitton is completely different: the brand actually increasingly tries to exploit any digital device to reach an increasing number of consumers. Retracing the steps of this process, it is starting from 2010 that Louis Vuitton began to use the platforms of Youku and Weibo and, in December 2012, it turned out to be the first luxury brand to open a service account on WeChat. In addition to this, as of 2017, the brand has decided to launch an experimental program in 12 cities (such as Beijing, Chongqing, Guangzhou, and Shanghai) to provide omni-channel experiential (through its e-commerce website) to its customers. In May 2018, the service was extended to 26 other cities and, as of June 2018, it was open to all cities. The service allows customers to have access to a premium service, 7 days a week. In this way, customers can receive products in a very short time and rely on a continuous assistance (even for returns).<sup>77</sup> Generally speaking, by analysing the digital strategy of Louis Vuitton, we can find the following features:

- The brand pays special attention to the needs of the younger generation (Millennials and Gen Z), collaborating with other brands or celebrities and KOLs. For example, already in 2015, Louis Vuitton collaborated with Fan Bingbing, one of the most famous actresses in China and among the 4 most paid in the world. Being particularly popular on social media (more than 40 million followers on Weibo), in a very short time, Fan Bingbing became the brand's ambassador and this led to an exponential increase in sales.
- Full dedication to digital innovation, with continuous improvements always focused on creating a service whose core are customers.

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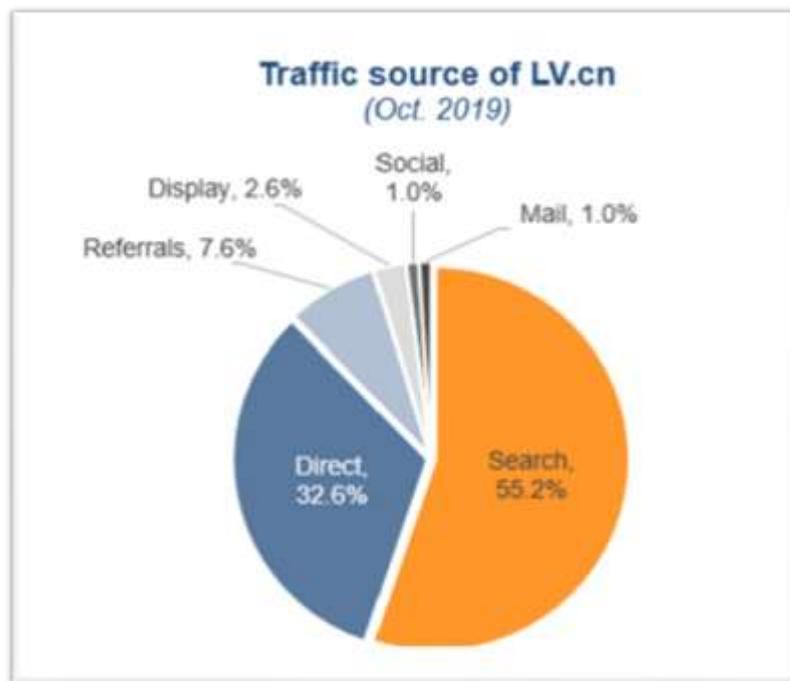
<sup>76</sup> Artur Kornienko, *How did Louis Vuitton become #1 Luxury brand in China?*, in GFluence, March 2017, available at <https://gfluence.com/expensive-taste-louis-vuitton-become-1-luxury-brand-china/>, last consultation 20 April 2022

<sup>77</sup> Ruonan Zheng, *Exclusive: Louis Vuitton expands E-commerce reach to cover all of China*, in Jing Daily, July 2018, available at <https://jingdaily.com/louis-vuitton-expands-e-commerce/>, last consultation 20 April 2022

- Louis Vuitton tries to keep up with new trends, to support its reputation, especially through artistic collaborations, such as in 2017, when he collaborated with Jeff Koons – a well-known American artist – or through limited edition collections and customized for its customers.

Let's focus now on the main platforms used by Louis Vuitton in China, starting from the official website. Considering the data proposed in 2019 by Daxue consulting<sup>78</sup>, since it is possible to directly make purchases from the official website, the percentage of people who click on what they are seeing to finalize the purchase (known as Click-through Rate - CTR) grew by 14% in 2018:

Figure 3.7: Traffic source of Louis Vuitton chinese website



Source: Daxue Consulting, *Louis Vuitton in China: the king of luxury brands in China*, February 2020

Unlike Chanel, on the official website you can select products directly, add them to the cart and complete the purchase. The website also shows the physical store closest to your location where to find the selected product. This service, which should be even more powerful on the Chanel website, was not present.

<sup>78</sup> Daxue Consulting, *Louis Vuitton in China: the king of luxury brands in China*, February 2020, available at <https://daxueconsulting.com/louis-vuitton-in-china/>, last consultation 18 April 2022



Source: Louis Vuitton official website

In addition to the official website, the app is also very functional: it presents the same categories and services offered on the website and tries to improve it more and more with the addition of technologies such as QR code and other applications from the world of artificial technological intelligence. Moving now to WeChat, in addition to the official account, in 2019, Louis Vuitton has started using mini programs.<sup>79</sup> This tool is also used to create a bond with consumers and "inform" them openly and sincerely about the story behind the brand and its products. The first mini-program offered, to the first 2000 users who viewed it, the chance to win a discount voucher to use for purchases. Subsequently, mini-programs were used with specific marketing and advertising features, to launch new collections or to update consumers with the latest news. Particular is also the fact that the first article published on the official account of WeChat - entitled "You decide the best Louis Vuitton bag" – was created by Gogoboi, a well-known Chinese fashion blogger. This underlines even more the brand's openness to collaborations with influential people in the Chinese world. The use of the WeChat platform has allowed and allows more and more to reach ever more consumers and Louis Vuitton now has an audience of almost a million followers, with an average of 100,000 views per post.

<sup>79</sup> Seo Agency China, *Louis Vuitton and its new WeChat mini-programs*, July 2019, available at <https://seoagencychina.com/louis-vuitton-and-its-new-wechat-mini-program/>, last consultation 18 April 2022

Figure 3.8: Louis Vuitton's WeChat public account



Source: Daxue Consulting Group, 2019

In addition to WeChat, Louis Vuitton has also been using JD.com platform since 2021. As a result, consumers can directly find the luxury products of the French brand on JD.com website or app and, by a click, will be redirected to the official website or WeChat pages, where they can complete the payment transaction. Adam Knight – co-founder of Tong, one of the most important digital marketing agencies in China – said that the direct link from JD to WeChat is a novel approach and *“It allows luxury brands that still have reservations about JD due to its positioning to capitalise on the platform’s existing reach, without cannibalising their brand-owned social commerce experience on WeChat. While perhaps not quite the same as a full commitment to the JD platform, this new model marks a signal of confidence from possibly the world’s most recognisable luxury brand. I am sure there will be many other competitors reading this news and reconsidering their options”*<sup>80</sup>. Finally, Louis Vuitton is also present on the social e-commerce platform Little Red Book (小红书). Actually, Louis Vuitton was the first international brand to create an official account on the platform and now has more than 3,160,000 followers. Particularly, in March 2020, the platform was used by the French brand to launch its first live presentation of the summer collection.<sup>81</sup> The live was made in full lockdown just to allow consumers to see the products worn, giving the opportunity to have a three-dimensional vision.

<sup>80</sup> Source: Annachiara Biondi, *Louis Vuitton joins China’s JD.com amid online luxury battle*, in Vogue Business, 14 April 2021, available at <https://www.voguebusiness.com/consumers/jd-louis-vuitton-partnership>

<sup>81</sup> Ruonan Zheng, *Louis Vuitton’s Debut Livestream on Little Red Book*, in Jing Daily, March 2020, available at <https://jingdaily.com/louis-vuittons-debut-livestream-on-little-red-book/>, last consultation on 18 April 2022

This, combined with the strong presence of the brand on the various platforms, represents the new step in the path of brand digitalization, path made in a conscious and studied way. Particular is also the choice of the name of the account: while the other international brands that are present on the application report their name and then their translation into Chinese (then you can search for them by typing the name in the original language), Louis Vuitton decided to use only the transcribed name (with phonetic transcription) in Chinese. This represents the will to understand and "adapt" to the culture and language of the Chinese people.

Figure 3.9: Louis Vuitton's official account on Little Red Book



Source: Louis Vuitton official account on Little Red Book (小红书)

In conclusion, Louis Vuitton has made a real exploratory journey within the Chinese e-commerce world, starting from its website and its app, and then moving on digital platforms, even reaching social e-commerce platforms right at the time of the pandemic.

*Hermès' strategy – the digital world as complementary, rather than a threat:*

Let's now consider the digital strategy used by the French company Hermès. Founded in 1837 by Thierry Hermès, today it is a luxury brand well known for its bags and suitcases, but also for perfumes and footwear. The brand's strategy is based on a spirit of conquest, in the sense that store managers become personally responsible for what is offered within their stores, with the possibility of choosing directly which products to offer based on customers, and with a great attention to creativity and quality, all features that are well suited to the complex Chinese market<sup>82</sup>. A great challenge for Hermès was the conquest of the Chinese market. The brand's presence in China began in 1997 and, in a short time, it has expanded in 19 Chinese cities, with more than 28 luxury stores. Despite this quick and decisive entry, the brand has decided to adopt a strategy based on a walk-lead approach, aware that the Chinese market is a great opportunity, but that can easily turn into a big failure.<sup>83</sup> Combined with this strategy, with the aim of reaching more and more consumers with its own philosophy and ideals, Hermès in 2012 decided to launch its own Chinese brand, called Shang Xia. The brand was launched by Jiang Qiong, with the support of Hermès, who, however, tried to limit at minimum and to keep under control the effects on their image and identity in China. If we wanted to summarize the approach adopted in the Chinese brand market, we could use the word "patience": step by step, Hermès has created its own path in a highly differentiated and complicated market and continues every day to pay attention to consumer demands, choosing to place its products in the highest luxury segment, controlling the distribution of products and avoiding any form of celebrity involvement. Let's now move on to the analysis of the digital strategy of the brand. According to the 2020 data taken from an interview with Axel Dumas - Hermès Executive Chairman - 75% of consumers who used the online platforms were new (they had never purchased products of the brand). This figure is emblematic precisely because it is the proof of the fact that the online world becomes a means to capture the attention of new possible consumers. In the interview, Axel Dumas commented on the digital boom: *"These are new customers, new customers who came to our online stores, so there wasn't any sort of cannibalisation. We see that our website in China continues to grow very strongly in second quarter despite of the fact all the Chinese stores have also reopened."*<sup>84</sup> Having developed a solid strategy, based on a unique positioning, Hermès did not have great difficulty in dealing with the pandemic. Basing its digital strategy on the idea that it represents something

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<sup>82</sup> Martin Roll, *Hermès - The strategy insights behind the iconic luxury brand*, December 2020, available at <https://martinroll.com/resources/articles/strategy/hermes-the-strategy-behind-the-global-luxury-success/>, last consultation 30 April 2022

<sup>83</sup> Enzo Cacciotto, *Hermès in China: 25 years of history*, in Daxue Consulting, April 2020, available at <https://daxueconsulting.com/hermes-in-china/>, last consultation 30 April 2022

<sup>84</sup> Limei Hoang, *Hermès Online Channels Are Booming. Luxury Brands Should Take Note*, in Luxury Society, August 2020

complementary to the business itself - and not a threat - the brand had no problem using its online platforms (replacing physical stores) to reach more and more consumers and strengthen its positioning. This has led the brand to claim that e-commerce is their biggest store. In fact, during a conference call in 2020 – in which there was a discussion about the Q3 revenue report - Eric du Halgöiet, Hermès' chief financial officer commented, saying: “*Hermès e-commerce platforms are now the group's “biggest store,” with online sales up by nearly 100 percent across the globe for the first nine months of the year.*”<sup>85</sup> Now let's see how and in which platforms Hermès is present. It was in 2017 that, following the example of competitors such as Louis Vuitton and Gucci, Hermès launched its Chinese e-commerce website: on the platform, not only you can see the products and get technical information about them, but you can also directly buy anything you want (not just certain products as we have seen with Chanel or as we will see with Givenchy).<sup>86</sup>

Figure 3.10: Hermès official website



Source: Hermès.cn

In general, the design of the Chinese e-commerce website is the same as in other countries (for example, Italian version website). But there are differences, especially with regard to the stock of products: many bags are present on the American website and - in general - on the websites of European countries, but do not appear on the website with the domain cn. One possible explanation still refers to the concept of "patience": the brand is experimenting with its strategy and, probably, will introduce more and more products in the future, with a gradual process. Moving now to the

<sup>85</sup> The Fashion Law, *Hermès says it will increase offerings online as e-commerce is now its “Biggest Store”*, October 2020, available at <https://www.thefashionlaw.com/hermes-says-it-will-increase-online-sales-as-e-commerce-is-now-its-biggest-store/>, last consultation on 30 April 2022

<sup>86</sup> Yiling Pan, *Hermès launches its first-ever chinese e-commerce website*, in Jing Daily, October 2018, available at <https://jingdaily.com/hermes-china-e-commerce/>, last consultation 30 April 2022

JD.com platform, starting from 2018, the Shang Xia label begins to be present, giving consumers the opportunity to buy a very diverse range of products (accessories, apparel, etc), whereas if we consider Hermès its presence is limited only to some products, including shoes and only from 2020<sup>87</sup>. This is not surprising: as we said before, for Hermès it is important to have full control of its name and image, which is why there are few collaborations with celebrities or KOLs. As a result, we are not surprised that the brand prefers to build its own e-commerce website rather than rely completely on digital platforms, owned by third parties. Turning now to WeChat, in October 2017 (we must note and emphasize that we are much earlier than the outbreak of the pandemic and this makes us understand the brand's avant-garde in exploiting the Chinese digital market immediately), launched its first pop-up store in collaboration with Apple.<sup>88</sup>

Figure 3.11: Hermès' first pop-up store on WeChat



Source: Jing Daily, October 2017

The post promoted a limited-edition watch made by the collaboration of the two brands and lasted only two weeks. By clicking directly on the post, you were redirected to the official website of Hermès, where you could complete the purchase. The strategy was to reach new consumers and convince them to join WeChat (a condition necessary to have access to the promotion). At the end of the two weeks, the goal was achieved, with more than 20,000 new registered users. The same strategy was used for

<sup>87</sup> Yiling Pan, *Chinese Whispers: Buccellati, Hermès-owned Shang Xia open Jd.com stores*, in Jing Daily, September 2018, available at <https://jingdaily.com/hermes-shang-xia-buccellati-jd/>, last consultation 30 April 2022

<sup>88</sup> Ruonan Zheng, *Hermès enhances China digital game with launch of first WeChat pop-up store*, in Jing Daily, October 2017, available at <https://jingdaily.com/hermes-enhances-digital-china-digital-game-launch-first-wechat-pop-up-store/>, last consultation 1 May 2022

the promotion of the Birkin Bag, taking advantage of the limited time and limited quantities. We note that this is one of the strategies in general most used by luxury brands, especially with regard to bags.<sup>89</sup> Another device used by the French brand is the free app that allows consumers not only to see and buy products but also to give advice and stylistic ideas through video tutorials. The use of an app that provides this type of service has allowed the brand to create, especially in China, a direct communication especially with younger generations (Millennials and Generation Z). If we consider the social e-commerce platform Little Red Book (小红书), the brand is not present with an official account, but many are the posts in which people talk about its bags. Given the slow and studied approach, probably the brand is still studying how to best use this type of application, which, remember, is a safe method through which to experience the Chinese market. Here we have an example post that uses the Hermès hashtag:

Figure 3.12: Hermès hashtag on Little Red Book (小红书)



Source: Little Red Book (小红书), May 2022

<sup>89</sup> Yiling Pan, *How Hermès utilizes WeChat to provide VIP experience for fans*, in *Jing Daily*, May 2019, available at <https://jingdaily.com/hermes-wechat-vip/>, last consultation 1 May 2022

In conclusion, the following list summarizes the main aspect of Hermès' strategy in the Chinese digital market:

- 1) The approach has not been quick and immediate, but Hermès is still choosing which platforms to use.
- 2) Hermès has recognised the potential of the digital market and is not afraid to launch into this world, seeing it as complementary to physical sales and not a threat.
- 3) The brand prefers to use devices managed entirely by it - such as the website or app - rather than third-party platforms (such as WeChat and Jd.com).
- 4) In the promotion of products, the strategy of limited editions and pop-up stores is used, while collaborations with KOLs are still limited.

### *Burberry's strategy – e-commerce as a key to success:*

Let's now analyse the history and strategy of the English brand founded in 1856, Burberry. In China, Burberry has managed, in a very short time, to achieve a great fame and a great prestige, becoming one of the most popular and famous brands.<sup>90</sup> One of the reasons for this great success is the attention to the digital world. In fact, immediately the British brand has developed a strategy based on the use of e-commerce platforms to reach consumers of all ages. Burberry arrives in China in 2010, through a partnership, with the acquisition of more than 50 stores. Ten years later, in 2020, Burberry has more than 57 stores in 31 cities and - according to data presented by Daxue Consulting in 2021 - the Chinese market will become the main market for the brand by 2025.<sup>91</sup> Developing a well-rounded online presence, Burberry decided to focus mainly on the class of rich young people, with a strategy of perfect adaptation to the needs of the Chinese market. In a nutshell, Burberry understood that in order to succeed in China, it was necessary to totally immerse in the digital world and did not hesitate to do so. In addition to having an official website and an official account on WeChat and Weibo, there are many platforms where the brand is present: Jd.com, Tmall and Tmall Luxury Pavilion, Net-a-porter, Farfetch, Secoo and Little Red Book. According to data reported by Daxue Consulting Group in July 2020<sup>92</sup>, the brand has 1.51 million followers on the Weibo platform and 2.16 million on Tmall. In general, the key points of the digital strategy are:

- 1) Creation of a performing and constantly updated website.
- 2) Creation of posts on WeChat and Weibo with the involvement of celebrities (including Mr. Bags), engaging consumers in the "daily life" of the brand, with the background of advertising campaigns or photo shoots.
- 3) Create a connection between online and offline, allowing consumers to buy products simultaneously with shows or fashion shows (such as fashion week).

Let's start from the analysis of the Burberry website: the international website allows you to select Chinese as the base language (with a distinction between traditional Chinese or simplified) and allows you to complete the purchase of any type of product. In addition, you can chat directly with a virtual guide via the icon that appears on the screen. This service is highly valued by Chinese consumers as it is perceived as a means of authenticity and attention to their needs.

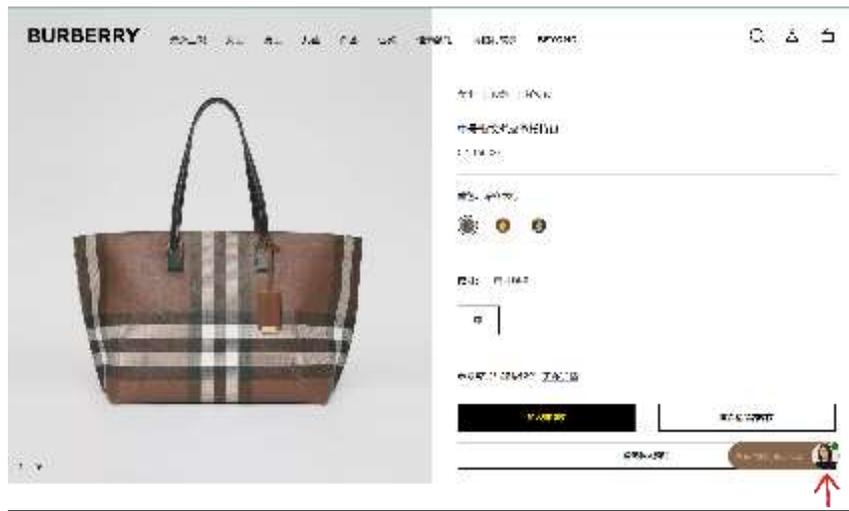
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<sup>90</sup> GMA, *How Burberry becomes No.1 E-commerce fashion brand in the world*, November 2014, available at <https://fashionchinaagency.com/burberry-becomes-1-e-commerce-fashion-brand-world/>, last consultation 1 May 2022

<sup>91</sup> GMA, *How Burberry is conquering China*, February 2014, available at <https://marketingtochina.com/burberry-conquering-china/>, last consultation 2 May 2022

<sup>92</sup> Qing Zheng, *Burberry in China: Sales increasing faster than any other region*, in Daxue Consulting, July 2020, available at <https://daxueconsulting.com/china-market-research-on-burberry/>, last consultation 3 May 2022

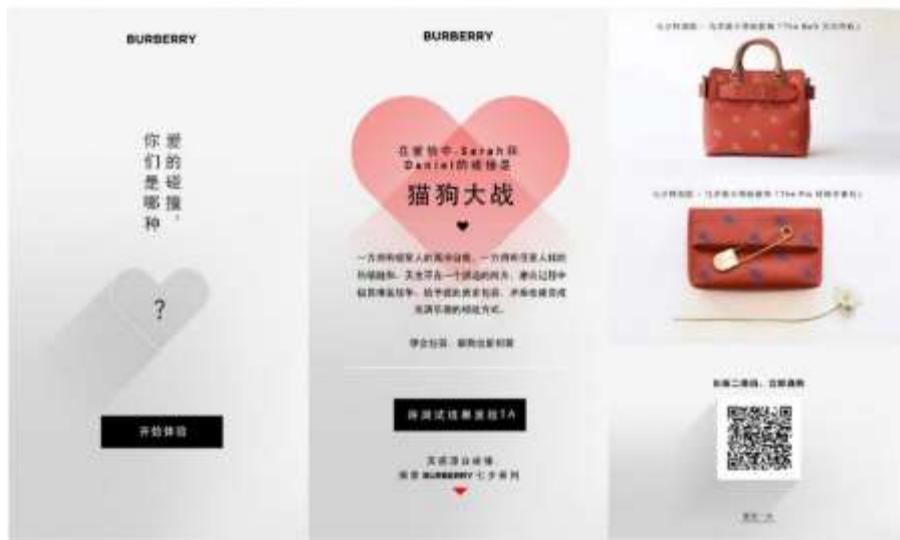
Figure 3.13: Burberry's official website



Source: Burberry.cn

Moving now to the official account on WeChat, Burberry uses this app as the main means to attract more and more consumers. Already from 2018, Burberry used a mini-program for the sale of bags during Chinese Valentine's Day (Qixi Festival). Through a game, consumers could access the exclusive collection and complete the purchase later.<sup>93</sup>

Figure 3.14: Burberry's mini program for the Qixi Festival



Source: Jing Daily, 2020

What distinguishes Burberry from other luxury brands is the union between the online and offline world: a concrete example is the store opened in Shenzhen in July 2020. Marco Gobbetti, CEO at

<sup>93</sup> Chelsea Gui, *Rethinking e-commerce strategies with Burberry's first Mini Program*, in *Wirecraft*, September 2018, available at <https://wirecraft.com/blog/rethinking-e-commerce-strategies-with-burberry-first-mini-program/>, last consultation 2 May 2022

Burberry has commented in this way: “Burberry has always been a brand of firsts, built on a belief that creativity has the power to open spaces. We test new ideas and push the boundaries of what’s possible. When it came to innovating around social and retail, China was the obvious place to go as home to some of the most digitally savvy luxury customers. Together with Tencent, we have pioneered a new concept that will redefine expectations of luxury retail. The first step in an exclusive partnership between our companies, Burberry’s social retail store in Shenzhen is a place of discovery that connects and rewards customers as they explore online and in store. It marks a shift in how we engage with our customers and we can’t wait to share this innovative experience with the world”<sup>94</sup> Developed thanks to the collaboration with Tencent technology, the first digital store was opened in July 2020 and has been a great success. Within the store, different digital devices will be experimented, such as products and apps directly chosen by consumers. Collaboration with WeChat was the key to create a fully digital environment. Through the use of WeChat mini-programs, consumers can contact customer support directly, they can use QR codes to get product information, they can have access to exclusive content and discounts, and they can even complete the purchase.<sup>95</sup>

Figure 3.15: The use of QR codes



Source: Burberry.com

The more consumers use the app, the more points are accumulated. These points give consumers access to even exclusive environments within the store, such as the digital room of the Trench (one of Burberry’s most famous products).

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<sup>94</sup>Official interview of 2020, available at Burberry.com

<sup>95</sup> Meghan McDowell, *Burberry tests “social retail” in China’s tech capital*, in *Vogue Business*, July 2020, available at <https://www.voguebusiness.com/consumers/burberry-tests-social-retail-in-chinas-tech-capital>, last consultation 2 May 2022

Figure 3.16: The use of Tencent technology in Shenzhen Store



Source: Burberry.com

The WeChat platform is also used by the brand to take advantage of a new trend, that of gaming<sup>96</sup>: China represents the largest gaming market in the world, with more than 645 million active players in 2020 (according to data published by the Hylink platform in 2021). For example, in July 2020, Burberry launched a mini-program based on a game named "B Surf WeChat" for the promotion of the TB monogram summer tickle. The game allowed users - as well as having fun - to see and have their virtual character test the products of the new collection. In the first two weeks, consumers could even win prizes, such as limited-edition hats.

Figure 3.17: Burberry's mini program on WeChat "B surf Wechat"



Source: Burberryplc.com

In addition to WeChat, there are many collaborations with other platforms. In 2018, Burberry began its collaboration with Farfetch, with a new integrated API technology, which allows the platform to have access to the inventory of the official website. Burberry president of digital marketing - Daniel

<sup>96</sup> Hylink, *I trend di Digital marketing in Cina da sfruttare per avere successo nel 2021*, December 2020, available at <https://www.hylinkeurope.com/it/portfolio/trend-di-digital-marketing-in-cina-2021/>, last consultation on 2 May 2022

Heaf - commented on the partnership in this way: “We are thrilled about our partnership with Farfetch. Burberry has led the way in digital and this is a natural and significant evolution for us as we seek to reach a young fashion-conscious consumer. We want the digital expression of our brand to represent the very best in brand and product storytelling whether on our own platforms or through our partners, and Farfetch customers globally can now access the full Burberry offer”<sup>97</sup> Four years before, in 2014, the brand opened its first e-commerce store on Tmall and then moved to Tmall Luxury Pavilion. On the latter platform, there are many live-streams for the sale of bags, especially during the pandemic and quarantine due to Covid-19.<sup>98</sup> A further novelty available since 2022 are the private live streaming sessions (one-to-one), with a high-performant service towards customers, who can have a private shopping session with a personal assistant even at a distance. Even on Weibo (the Chinese equivalent of Twitter), Burberry begins to be present immediately. In fact, since 2011 the British brand has opened its official profile and it has launched also the first live broadcast. At the moment, it has more than 16 million subscribers and is very active: on average, the brand publishes at least a post a day. This allows the brand to create a strong bond with the follower community and, as a result, to increase its own reputation.

Figure 3.18: Burberry's official account on Weibo



Source: official account Burberry on Weibo (微博)

Finally, there are many collaborations between Burberry and the most famous celebrities or KOLs in China, including Mr.Bags., Dongyu Zhou and Wei Zhao (famous Chinese actresses), Kris Wu (a

<sup>97</sup> Retain Insight Network, February 2018

<sup>98</sup> Amber Ran Bi, *One-to-one livestreaming takes off on Tmall Luxury Pavilion*, in Jing Daily, March 2022, available at <https://jingdaily.com/tmall-luxury-pavilion-livestreaming-one-to-one/>, last consultation on 2 May 2022

singer) etc. These partnerships are fundamental to attract young audiences (especially Millennials) and bring them closer to the world of luxury.

In conclusion, Burberry is the brand that in China has been able to follow the trend of digitalization with courage, fully exploiting the potential of the online market and creating a strong union between online and offline. Not only it has used and uses its business platforms to the fullest, adapting them to the Chinese world, but it has never pulled back in approaching the different and most used platforms to reach all the different sectors of the luxury goods market. This has allowed the brand to become one of the most recognized, important, and famous in China, proving that being digital is the key to success.

### *Givenchy's strategy – how to win with the right collaborations*

Let's now consider the strategy of Givenchy, a French company founded in 1952 in Paris by Hubert De Givenchy. The brand started to approach the Chinese digital market mainly from 2019, just before the start of the pandemic, just in time to develop its presence on some platforms that will now be analysed. Generally speaking, it can be stated that the e-commerce strategy is still in its earliest state, and still need to be defined and developed. Let's start from the analysis of the website: among the different possibilities of selecting a language, we find only 4 choices: Italian, French, English and simplified Chinese. By selecting the Chinese language, the website readjusts by referring the user to a new window, but in this case the website always remains the original one (international version): this means that there is no real website with Chinese domain (.cn). Another peculiarity is the following: changing language and updating, the website proposes as the first image an Eastern woman, presumably Chinese, while returning to the international version, the first image that appears presents a model with western traits.

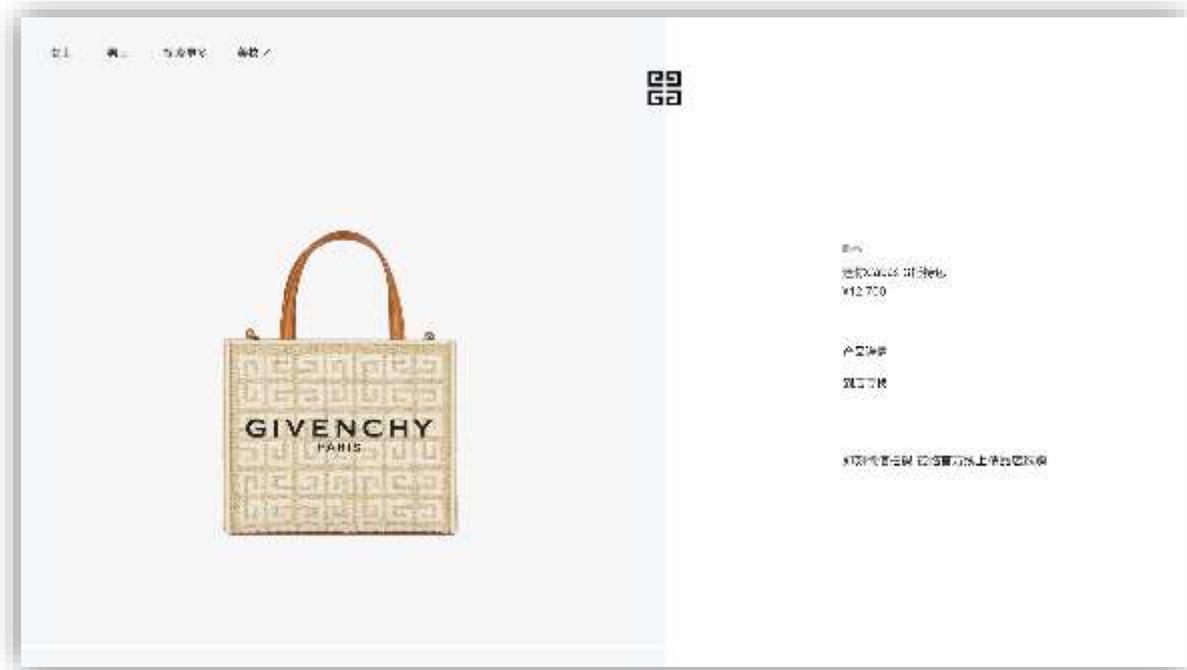
*Figure 3.19: Givenchy official website, the Chinese version*



*Source: Givenchy.com/zh*

As we had seen for Chanel, also in this case it is not possible to buy directly from the website. You can get information about the price, size, and material, but there is no possibility to add the product to the cart to complete the purchase (which is possible in Italy).

Figure 3.20: Givenchy official website, where it is not possible to conclude the purchase



Source: <https://www.givenchy.com/apac/zh>

Turning now to the platforms used by Givenchy, we can find Tmall<sup>99</sup>. As of March 2018, the French brand has opened its "virtual store" on Tmall. Despite the late arrival compared to other luxury brands on the platform, the day of launch, more than 5 million consumers visit the website and the company earned about 5 million dollars with sales, a record for the platform. Mainly though, on Tmall, you can buy cosmetic products or perfumes, rather than luxury bags. This strategy is the same that is also used by Chanel: the sale is reserved for those products that can be bought without having to be evaluated physically in stores.<sup>100</sup> What led Givenchy to develop a winning strategy on e-commerce platforms were the right collaborations. The first notable digital collaboration was with Mr. Bags in 2017. On the occasion of Valentine's Day, Givenchy has launched a limited-edition collection of bags, available only for followers of Tao Liang. In just 12 minutes, the 80 bags in this collection (called "Mini Horizon") were sold. Another important collaboration was in July 2017, when Givenchy decided to sell a limited collection of handbags (Duetto handbags) on the personal boutique of

<sup>99</sup> Givenchy's official account on Tmall, available at <https://givenchy.world.tmall.com/>

<sup>100</sup> Qeyes, *Givenchy Broaden Online channels to gain larger chinese market share*, April 2022, <https://www.qeyes.com/g20china/Givenchy-Broaden-Online-Channels-to-Gain-Larger-Chinese-Market-Share/1191-29>, last consultation 22 April 2022

Gogoboi on WeChat, getting sold-out in 72 hours. Gogoboi, the stage name of Thomas Ye, is one of the most famous influencers, especially on the Weibo platform.

Figure 3.21: Givenchy collaboration with Gogoboi



Source: Digital to Asia, February 2020, available at <https://www.digitaltoasia.com/i-mini-program-affascinano-i-brand-del-lusso/>

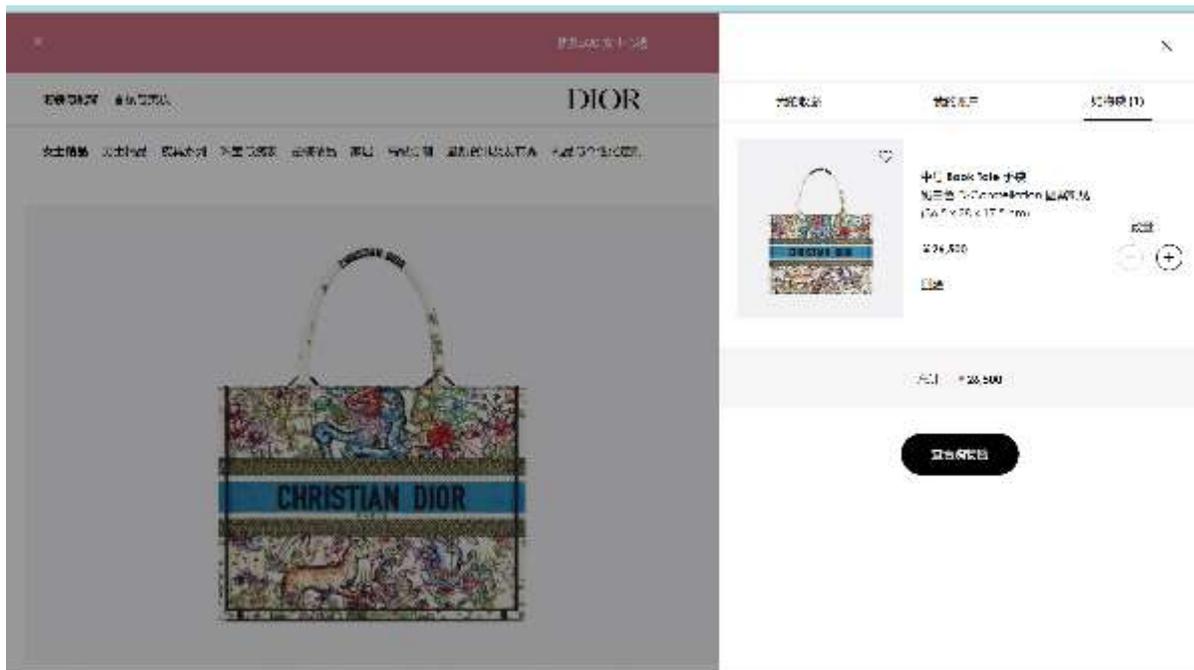
The success of this collaboration was a record: with a price of 7490 yuan (about 1,160 dollars), in just 72 hours, Givenchy managed to earn about 700,000 dollars. The last step for the brand was the entry on the Jingdong platform (JD.com), but always for the sale of make-up products or related to the personal skincare.<sup>101</sup> Givenchy is therefore still experimenting with the Chinese digital world, using for now platforms only for the sale of certain products. This is because it is still difficult to sell products without the possibility of evaluating their quality and authenticity live. This desire to "touch" products has always been a feature of the older generations of Chinese consumers, but the new generations are increasingly expressing the desire to be able to shop online, trusting especially the advice of celebrities and KOLs.

<sup>101</sup> Ruonan Zheng, *Givenchy wins on Gogoboi's new e-commerce channel*, in Jing Daily, July 2017, available at <https://jingdaily.com/givenchy-becomes-first-luxury-brand-sell-gogobois-e-commerce-channel/>, last consultation 22 April 2022

### *Dior's strategy – the pioneer of WeChat*

Let's start now to analyse the French brand Dior, founded in 1946 in Paris by Christian Dior. Currently, the brand is owned by Bernard Arnault, also head of the LVMH group. In the Chinese e-commerce market, Dior uses a very active strategy, mainly reminding performances and music videos to attract young consumers. With its strategy, Dior promotes its products by emphasizing the key values of its mission. Its logo is recognized all over the world and this makes those Chinese consumers have a high brand awareness.<sup>102</sup> Starting from the analysis of the website, there is the Chinese version (dior.cn) in which you can view the products and complete the purchase. The Dior website therefore functions as a real e-commerce website.

Figure 3.22: Dior official website, the Chinese version



Source: Dior.cn

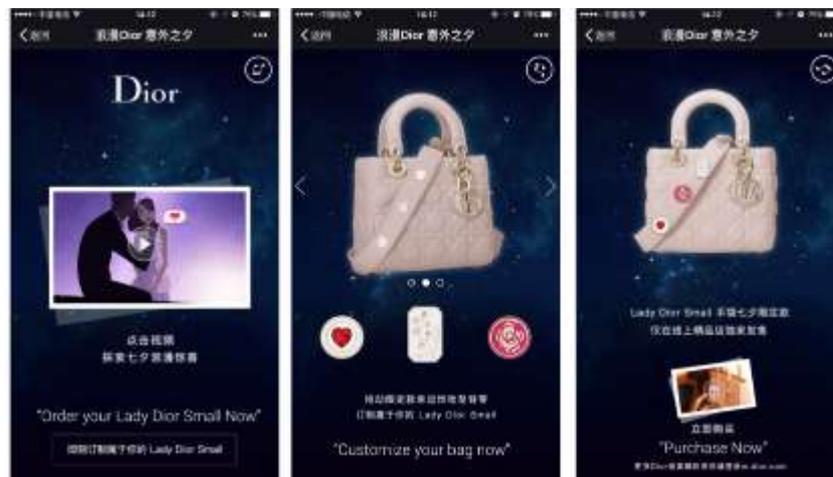
As for the main platforms, Dior uses mostly WeChat (making use of mini-programs), Tmall and Duoyin (the original Chinese version of Tik Tok). As for Burberry, Dior used the Chinese Valentine's Day (Qixi Festival) to make its entrance on WeChat with a special promotion. To be precise, Dior can claim credit for being the first luxury handbag brand to sell its products on the platform in February 2016, as reported by the China Daily.<sup>103</sup> On that occasion, a limited edition of Lady Dior was on sale from Monday and, the next day, all items were sold out. This is because consumers could

<sup>102</sup> Qing Zheng, *Dior in China: a prime case of luxury fitting into a digital China*, in Daxue consulting, July 2020, available at <https://daxueconsulting.com/dior-in-china/>, last consultation 5 May 2022

<sup>103</sup> GMA, *Dior the first luxury brand to sell on Wechat*, in E-commerce China Agency, January 2017, available at <https://ecommercechinaagency.com/dior-first-luxury-brand-sell-wechat/>, last consultation 4 May 2022

choose which photo to insert as a decoration of their product, thus creating unique and inimitable models. Leveraging digital technology and combining it with the concept of "uniqueness", Dior has thus managed to win over the Chinese audience.

Figure 3.23: Dior's mini program on WeChat for Qixi Festival



Source: E-commerce China Agency (GMA), January 2017

Moving on to Tmall, it was in July 2020 that Dior inaugurated its official store on the platform, just before the traditional shopping festival. In a month, it reached more than 340,000 followers. After this analysis, we can see how the traditional festivals – as they are related to Chinese culture – become the right time to experiment with new platforms or launch new products. It is always during the quarantine and closing period, starting in 2020, that Dior began to collaborate with celebrities such as Liu Yuxin (the young winner of the second edition of the show "Youth with you").<sup>104</sup> Through livestreaming, the young boy has allowed Dior to launch its new collection of cosmetic products - in particular, related to skincare - and to receive in a few minutes more than 3000 orders.

<sup>104</sup> Jen King, *Dior taps WeChat's direct-to-consumer potential in social selling effort*, in Retail Dive, 2017, available at <https://www.retaildive.com/ex/mobilecommercedaily/dior-taps-wechats-direct-to-consumer-potential-in-social-selling-effort>, last consultation 5 May 2022

Figure 3.24: Dior's collaboration with Liu Yuxin



Source: iNews, May 2022

Dior is also present on social e-commerce platforms such as Little Red Book, with more than two million followers and also uses Douyin and Bilibili (哔哩哔哩). Also from 2020, the French brand has activated its official account on Bilibili, becoming again the first international luxury brand to use it.

Figure 3.25: Dior official account on Little Red Book



Source: Dior on Little Red Book

From the choice of these platforms, we can understand that Dior's strategy is mainly to attract new potential consumers, especially millennials or belonging to Generation Z. The platforms are not used so much to entice consumers to complete the purchase, but to get in touch with the products, get to know them and then push them to visit the boutiques. This is perhaps why we find collaborations with livestreaming platforms, rather than e-commerce platforms, such as Duoyin and Bilibili. Another element that we must underline again is that the increase in the use of digital platforms is noticed during the period of the first lockdown: Dior was mindful and immediately understood that it was essential to provide a new service for its customers at a time of closure and responded proactively to this challenge, opening up to the online luxury market.

### *Gucci's strategy - the all-round digital world:*

The last brand that we are going to analyse in this paper is Gucci. Gucci is a luxury fashion company founded in Italy in 1921 by Guccio Gucci belonging to the Kering group. Gucci arrived in China in the second half of the 20th century and, in particular, in 1977 with the opening of its first stores in Beijing and Shanghai. From that moment, the story of one of the most important and famous luxury brands in China began. From the starting point, the strategy used by the brand was to study and adapt to the needs of a market completely different from the Italian one. This has led the brand to create unique and specific products for the Chinese market, products that are linked to the different culture. An example is the collection dedicated to the “Year of the Dog” (2018/2019) or the one dedicated again to the Chinese Valentine’s Day.<sup>105</sup> Considering the main digital platforms and devices in the Chinese market, Gucci - together with Burberry - is one of the most active brands: not only it has a high-performance website and app, not only it uses WeChat with its Mini-program, but Gucci is also present on many e-commerce websites, such as Jd.com, Tmall, Tmall Luxury Pavilion, Net-a-porter-Farfetch and Secoo. Before analysing Gucci’s online presence, we can summarize the key points of its strategy in China, which are:

- 1) Great attention to the history of the brand, which is also communicated online to "educate" younger consumers.
- 2) Great attention to cultural inclusion, with limited editions that follow traditional Chinese festivals.
- 3) Use of many digital devices to create direct communication with young costumers.
- 4) Collaborations with famous celebrities and KOLs, very often also choosing oriental models to promote products in the Asian markets.

Let’s now move on to the analysis of the digital devices used by the Italian brand, starting from the website. On Gucci website, there is a Chinese version, where you can both view the products or buy them. The website was created as early as July 2017 and this makes us understand that Gucci’s digital strategy has not developed in parallel with the development of the pandemic and with the need to find alternative means to reach consumers, but the brand soon realized the need to experiment with new strategies to reach the target of younger consumers. Here below, we have an example of handbag on the official website and we can note that not only consumers can buy the product directly, but they

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<sup>105</sup> GMA, *Gucci in Cina*, February 2022, available at <https://italia.marketingtochina.com/gucci-in-cina/>, last consultation 6 May 2022

can also search for the nearest boutique in which to make the purchase, as well as chat directly online with a fashion advisor.

Figure 3.26: Gucci official website, the Chinese version



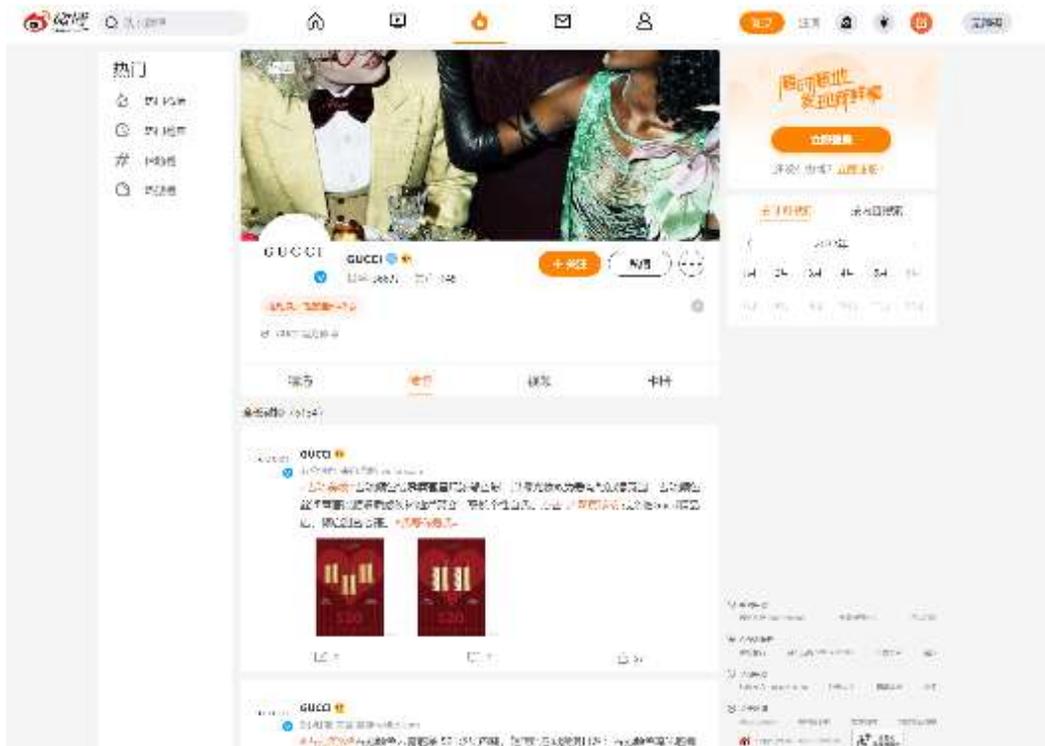
Source: [Gucci.com/it/zh](http://Gucci.com/it/zh)

Among all the brands analysed, Gucci website is the most performant, well organized, easy to use, but full of information and services. Turning now to WeChat analysis, Gucci very often uses mini-programs to increase the link with consumers and establish a loyal relationship with them. In particular, two are the most famous mini-programs that Gucci has created:

- 1) Gucci Beauty Self-Expression: through this mini-program, users can take and upload a selfie directly to the app, and then turn it into a custom Gucci emoji.
- 2) Gift card: in this case, this program works just like the traditional gift card, thus allowing the purchase of a gift for friends or relatives, with the addition of the possibility of customizing the design of the card itself. This attention to the free expression of everyone shows the interest of Gucci to respect the preferences of each consumer.

Also in this case, the presence of the brand on the platform began way back in 2013, where the official account was already used both to communicate with consumers, but also as a sales channel to be developed and enhanced. And it is precisely this combination that has proved to be the right strategy to make a name for itself among competitors and conquer the market of the younger generations. Weibo is also used as the brand's main communication medium, with more than 3 million followers. As well as Burberry, Gucci is very active on the platform, and every day multiple posts are published, also in collaboration with Chinese celebrities.

Figure 3.27: Gucci's official account on Weibo



Source: Weibo.com/Gucci

Moving on to Tmall and Tmall Luxury<sup>106</sup>, it was in December 2020 that the Italian brand decided to open two digital stores on the largest Chinese e-commerce platform, one for fashion products and one for beauty products. The main reason why Gucci has activated this platform is linked to the level of service that it offers, that is to make consumers live the personalized experience that they could live in a physical boutique.

<sup>106</sup> Ansa, *Gucci sbarca su Luxury Pavilion di Tmall (Alibaba)*, in Fashion Network, December 2020, available at <https://it.fashionnetwork.com/news/Gucci-sbarca-su-luxury-pavilion-di-tmall-,1268443.html>, last consultation 7 May 2022

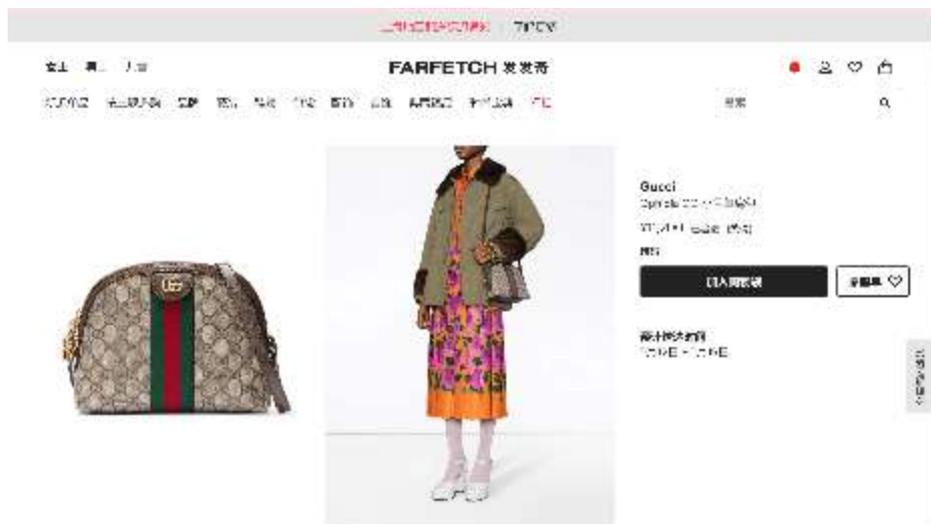
Figure 3.28: Gucci's official account on Tmall Luxury Pavilion



Source:Tmall Luxury Pavilion/Gucci

Another e-commerce platform in which Gucci is actively present is Farfetch. Starting in 2019, the brand decided to try to use this platform, despite the biggest fear for luxury brands, namely counterfeiting. But despite this fear, Gucci has decided not to deprive itself of this possibility and to offer an additional choice to its consumers, so as to increase more and more their brand awareness.

Figure 3.29: Gucci's official account on Farfetch



Source: Farfetch.com/Gucci

Last, but certainly not least for its importance, is the brand's choice of hiring Chinese celebrities and KOLs. Many are the collaborations with the brand of well-known people, such as Xiao Zhan, a member of the Chinese band X Nine and actor in the drama "The Untamed", became in 2019 ambassador of the brand. In an interview<sup>107</sup>, Marco Bizzarri - CEO of Gucci - commented on the choice of choosing him thanks to his strong mentality and positive energy. Other KOLs collaborating with Gucci include Li Yu Chun, a very famous Chinese singer, and Luhan, an acclaimed Chinese actress. There has not yet been an official collaboration with Mr. Bags, although very often Gucci bags are featured in its rankings.

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<sup>107</sup> GMA, Gucci in Cina, February 2022, available at <https://italia.marketingtochina.com/gucci-in-cina/>

After having analysed one by one the different approaches of the brands, it is now necessary to summarize all that has been said trying to create clusters characterized by similar features.

In general, the classification that we can make is as follows:

- 1) Brands that have not yet perceived the extreme relevance of the Chinese digital world: *Chanel* belongs to this group, as it has shown a lack of attention to different digital devices for fear of a kind of cannibalism between the online and the offline world.
- 2) Brands that gradually approached the world of e-commerce in China, especially during the lockdown period: in this group we find *Givenchy* and *Dior*, where the strategy of both is not so much to use the platforms as a means of sale, but rather to employ them to attract young consumers. As we have seen, both brands allow the purchase of only some categories of products (mainly cosmetics) for which the physical evaluation is less relevant, while for products such as luxury bags, the digital world is used only as a means of presentation and attraction.
- 3) Brands that make e-commerce an integral element of their strategy, exploiting it in the round: belong to this group *Louis Vuitton*, *Hermès*, *Burberry*, and *Gucci*. All these brands have understood that the online presence is no longer something accessory in the Chinese market, but has become extremely important and, as such, must be integrated into their strategies. We can make a distinction between the first two brands - *Louis Vuitton* and *Hermès* - that step by step are developing more and more their online sales strategies and the other two brands - *Burberry* and *Gucci* - who from the beginning were farsighted and understood the importance of using online platforms not only to communicate with consumers, but to increase sales.

## ***Conclusion***

In this paper we have discussed the importance of the e-commerce world for luxury brands in China. The basic idea on which the whole analysis is based is precisely that, in the 21st century, in order to be successful and conquer the Chinese market, we can no longer limit ourselves to the attention to the name and history of the brand or the attention to the quality and design of the products. These are characteristics that have always been sought after by consumers, but nowadays, other needs have emerged and brands cannot neglect them. To win in the Chinese market, even the most reluctant brands such as Chanel, must enter the perspective of investigating and exploring the new sales channels available, in order to reach the new generations and secure the sales and profits of the future. We have also understood that the attention to cultural and social values, as well as the attention to personalised services, are key elements that must also persist in the online world.

The questions that then arise are as follows: "*How can a brand offer all these elements through a screen?*", "*How can it make the online world look like the offline one?*", "*How can a company build its own digital version 2.0?*".

Of course, there isn't a single answer and strategy that brands should use, but after the analysis that has been done, it is possible to affirm with certainty that the focal points they should always been considered are the following:

- 1) Develop a strategy that is not a pure emulation of that used in other countries but adapt it to the diversity of the Chinese market.
- 2) Understand which digital platforms are most used by consumers and be present on them: not only on the traditional platforms, but also on the most innovative ones, i.e., the social e-commerce platforms. The latter can prove to be a great tool to understand how to enter and succeed in the Chinese market and can therefore become excellent springboards.
- 3) Actively collaborate with local celebrities and KOLs: collaborations with influencers work across the global market and even more in China, where young people form an important market share. Therefore, brands should pay close attention to what celebrities say or think about their products: a bad review could cause great damage to the brand's image.

In the detail of the analysis, regarding luxury bags, we have understood that many brands are still reluctant to use online platforms for sale due to the fact that Chinese consumers have expressed a great interest in "touching" the product by hand, to evaluate its quality, authenticity and design. What has just been said is true, but it must not be taken as the only recognized paradigm; it is necessary to innovate and adapt to what are unavoidable changes in the world in which we live. In conclusion, based on the sample brands we analysed, we can identify 3 macro groups and, consequently, 3 main strategies used by international brands in China. The following diagram summarizes in a simplified way the characteristics of these 3 groups:

*Comparison*

International Brands	The brand has its own website and app	It is possible to buy on the official website or app	The brand is present on the traditional platforms (even before Covid-19)	The brand starts to be present on the traditional platform after Covid-19	The brand is present on social e-commerce platforms	The brand actively collaborates with KOLs and celebrities
Chanel	✓	✗	✗	✗	✗	✗
Louis Vuitton	✓	✓	✓	✓	✓	✓
Hermès	✓	✓	✗	✓	✗	✓
Burberry	✓	✓	✓	✓	✓	✓
Givenchy	✓	✗	✓	✓	✗	✓
Dior	✓	✓	✓	✓	✓	✓
Gucci	✓	✓	✓	✓	✓	✓

We can see that, most of the brands analysed, have tried - deliberately or forcibly - to adapt their strategy to the digital world, in order to derive the greatest benefits. The brand that seems most reluctant turns out to be Chanel, as it has shown a lack of attention to different digital devices for fear of a kind of cannibalism between the online and the offline world. Then there are the brands that have decided to use a slow and gradual approach, almost experimental, as Givenchy and Dior. The strategy of these brand is not about using these platforms as a means of sale, but rather to employ them to attract young consumers. Finally, there are those brands - Louis Vuitton, Hermès, Burberry, and Gucci, who have decided to make the most of this new digital world. All these brands have understood

that the online presence is no longer something accessory in the Chinese market, but has become extremely important and, as such, must be integrated into their strategies. In my personal opinion, the right path is taken by brands like Gucci or Burberry, at the forefront of experimentation and use of all the digital devices that the Chinese world offers. At this point, it is important to underline the fact that, even for these brands, the strategy they have chosen and that has proved extremely effective so far, must be continually updated to adapt to the changes of an increasingly fast and global world. The Chinese market is a market in continuous growth, evolution, and change; therefore, international brands must unceasingly stay up to date and change their strategies in order to meet the needs of such a vast consumer market with different needs.

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## **Acknowledgements**

It is now time for thanks. First of all, I thank my supervisor - Chiar.mo Prof. Tiziano Vescovi - and my assistant supervisor - Chiar.ma Prof.ssa Daniela Rossi - for the help, advice and support I have received in these recent months. I also want to thank my family, my mom, my dad, and my brother for never stopping me from realizing all my dreams and for supporting me in all my choices. I thank my grandchildren - Gaia and Christian - perhaps too many children to understand how fundamental they are for me, joy for my soul. I thank my uncles, Mario, Lella, Betta, Monica, for always being there for me, especially in the darkest and most complicated moments. I thank Marilena, for being a second mom for me and for always welcoming me as a daughter and I thank Enzo, who I miss every day more and more and who I know, that wherever he will be, he will be reading these words of mine. I thank Federica, my amora, for being always present support, even if in silence, that has not abandoned me for a lifetime. They tried everything, but we resist. You are and you will always be my only one among many. I thank Elisa, roommate, companion of these 5 years of university, companion of split burgers, trips, tears, songs and pre-exam evenings, laughter, a lot and endless love. I thank Andrea, the best friend I could have, sincere, determined, loyal, always present, sweet, and good. " Come te che mi fa stare bene quando io sto male e viceversa", always. I thank Linda, faithful companion of spritz, excellent sweet salami maker and true friend. I thank Giulia and Diletta, classmates who have become fundamental to resist in these years and never to be discouraged. I thank Rosario, a little great man, who understands me without having to speak. I thank Federico, companion of trash programs, gossip, and laughter. I thank Filippo, my anchor in Venice, my big heart. I thank my lifelong friends, Laura, Devid, Francesco, Christian, Carlotta, and Alex. I also thank you, who have been fundamental pillar of my life, you'll never walk alone. I thank all my colleagues from one of the most beautiful companies, Fischer Italia: Anita, Francesca, Alessia, Katia, Alessio, Marco, Pilar, Elisabetta and my super boss Gianfranco. I also thank all the sellers who made me feel appreciated and competent and for having endured even in the days that were complicated. In these months you have endured and supported my path and you have given me so much. Finally, I thank my illness for making me understand that I can do whatever I want. And I thank Davide, for never letting me give up a single second. You are the best doctor in the world and I will always be grateful for everything. The last thank is actually a wish that I do: i hope to never stop learning every day something new and always have the curiosity to ask me why things happen.